

***OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY, OHIO***

AUDIT REPORT

For the Year Ended June 30, 2005

Charles E. Harris & Associates, Inc.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

Board of Education
Oregon City School District
5721 Seaman Road
Oregon, Ohio 43616

We have reviewed the *Report of Independent Accountants* of the Oregon City School District, Lucas County, prepared by Charles E. Harris & Associates, Inc., 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 Oregon City 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 24, 2006

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**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY, OHIO
AUDIT REPORT
For the Year Ended June 30, 2005**

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Charles E. Harris & Associates, Inc.
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REPORT OF INDEPENDENT ACCOUNTANTS

Oregon City School District
Lucas County
5721 Seaman Road
Oregon, Ohio 43616

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oregon City School District, Lucas County, Ohio, (the 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Oregon City School District, Lucas County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary position for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 18 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* and GASB Statement No. 40, *Deposits and Investment Risk Disclosure*,

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Charles E. Harris & Associates, Inc.
July 20, 2006

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited**

The discussion and analysis of the Oregon City School District's 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 notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

In total, net assets increased \$3,584,835.

General revenues accounted for \$41,032,477, or 90 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$4,389,039 or 10 percent of total revenues of \$45,045,280.

The District's major funds are the General Fund and the Capital Projects Accumulated Fund. The General Fund had \$36,021,091 in revenues and other financing sources and \$37,208,651 in expenditures. The General Fund's balance decreased \$1,187,560 from the prior fiscal year. The Capital Projects Accumulated Fund had \$90,376,229 in revenue and other financing sources and \$555,687 in expenditures. The Capital Projects Accumulated Fund's balance increased \$89,820,542 from the prior fiscal year.

During the fiscal year, the District retired a portion of the outstanding energy conservation loans.

The District passed a 2-mill replacement Permanent Improvement levy in 2002, which they started collecting in 2004, and they passed a new 5.9 mill-operating levy in November 2003 which they started collecting in 2004. The District then passed a 4.4 mill bond levy in November 2004, which began collection in 2005 to repay \$45 million worth of bonds over 28 years.

On May 12, 2005, the District issued \$44,999,993 bonds for the construction of buildings. The bonds have an average interest rate of 4.5916 % and will mature on December 1, 2032.

On January 25, 2005, the District issued \$45,000,000 bond anticipation notes. The bond anticipation notes have an interest rate of 2.6 % and will matured on July 25, 2005.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater 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 a single column.

For the District, the General Fund and the Capital Projects Accumulated Fund are the most significant funds.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and 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 answers the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities are a presentation of the District as a whole. These statements include all assets and liabilities using the accrual basis of accounting similar to accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes 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 reports a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The major governmental funds are the General Fund and the Capital Projects Accumulated Fund.

General Fund revenues increased by \$1.9 million from 2004 to 2005. This increase was due to the passage of a new 5.9 mill-operating levy. Expenditures increased by \$1.99 million due to increases in salaries and benefits during the same period.

Capital Projects Accumulated Fund other financing sources increased by \$45 million from 2004 to 2005. This increase was due to the issuance of bond anticipation notes. Expenditures increased by \$555,687 due to increases in construction costs.

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

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Reporting the District's Fiduciary Responsibilities – The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a Private Purpose Trust Fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in the Agency Fund. All of the District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets in the accompanied financial statements. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance the operations.

The District as a Whole

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. Those two revenue sources represent 90 percent of total governmental activities revenue. Tax revenues include monies from District voter approval of school improvement levies. Reappraisal of real estate property values takes place every six years, with an update to that appraisal every three years, known as the triennial update. The District is scheduled for the triennial update in calendar year 2006. The increase in General Revenues-Property Taxes was due to a new 5.9 mill-operating levy being passed in November 2003.

Table 1 provides a summary of the District's net assets for fiscal year 2005. A comparative analysis of fiscal year 2005 to restated 2004 follows:

**Table 1
Net Assets
Governmental Activities**

| | 2005 | 2004 |
|---|--------------------|--------------------|
| <u>Assets:</u> | | |
| Current and Other Assets | \$131,941,240 | \$32,017,635 |
| Capital Assets, Net | 4,793,888 | 5,094,625 |
| Total Assets | <u>136,735,128</u> | <u>37,112,260</u> |
| <u>Liabilities:</u> | | |
| Current and Other Liabilities | 31,431,187 | 23,590,838 |
| Long-Term Liabilities | 97,277,792 | 9,080,108 |
| Total Liabilities | <u>128,708,979</u> | <u>32,670,946</u> |
| <u>Net Assets:</u> | | |
| Invested in Capital Assets, Net of Related Debt | 3,442,927 | 3,529,625 |
| Restricted | 3,752,668 | 2,234,162 |
| Unrestricted | 830,554 | (1,322,473) |
| Total | <u>\$8,026,149</u> | <u>\$4,441,314</u> |

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

**Table 2
Change in Net Assets
Governmental Activities**

| | 2005 | 2004 |
|--|--------------------|--------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$2,075,794 | \$1,923,868 |
| Operating Grants, Contributions and Interest | 2,279,645 | 1,653,106 |
| Capital Grants and Contributions | 33,600 | 500,000 |
| Total Program Revenues | <u>4,389,039</u> | <u>4,076,974</u> |
| General Revenues: | | |
| Property Taxes | 26,502,541 | 22,341,387 |
| Payment in Lieu of Taxes | 953,035 | 1,535,060 |
| Grants and Entitlements | 11,197,597 | 11,984,734 |
| Interest | 29,912 | 138,139 |
| Gifts and Donations | 255,480 | 92,301 |
| Miscellaneous | 1,717,676 | 204,162 |
| Total General Revenues | <u>41,032,477</u> | <u>36,295,783</u> |
| Total Revenues | <u>45,421,516</u> | <u>40,372,757</u> |
| Expenses: | | |
| Instruction | 24,826,659 | 24,038,476 |
| Support Services: | | |
| Pupils | 1,358,916 | 1,603,162 |
| Instructional Staff | 2,444,355 | 2,442,878 |
| Board of Education | 25,842 | 1,674 |
| Administration | 2,613,906 | 2,488,749 |
| Fiscal | 730,050 | 695,960 |
| Business | 286,391 | 261,237 |
| Operation and Maintenance of Plant | 5,146,819 | 4,307,693 |
| Pupil Transportation | 1,740,430 | 1,783,390 |
| Central | 6,381 | 12,753 |
| Non-Instructional | 1,723,256 | 1,614,502 |
| Extracurricular Activities | 750,461 | 798,002 |
| Interest and Fiscal Charges | 183,215 | 56,939 |
| Total Expenses | <u>41,836,681</u> | <u>40,605,415</u> |
| Increase/(Decrease) in Net Assets | <u>\$3,584,835</u> | <u>(\$232,658)</u> |

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2005 | 2005 | 2004 | 2004 |
| Instruction | \$24,826,659 | \$22,838,386 | \$24,038,476 | \$23,159,174 |
| Support Services: | | | | |
| Pupils | 1,358,916 | 1,324,430 | 1,603,162 | 1,568,751 |
| Instructional Staff | 2,444,355 | 2,371,966 | 2,442,878 | 2,377,237 |
| Board of Education | 25,842 | 25,842 | 1,674 | 1,674 |
| Administration | 2,613,906 | 1,959,755 | 2,488,749 | 2,033,725 |
| Fiscal | 730,050 | 730,050 | 695,960 | 695,960 |
| Business | 286,391 | 286,391 | 261,237 | 261,237 |
| Operation and Maintenance of Plant | 5,146,819 | 5,146,819 | 4,807,693 | 4,807,693 |
| Pupil Transportation | 1,740,430 | 1,740,430 | 1,783,390 | 1,783,390 |
| Central | 6,381 | 6,381 | 12,753 | 12,753 |
| Non-Instructional Services | 1,723,256 | 83,516 | 1,614,502 | 511,823 |
| Extracurricular Activities | 750,461 | 750,461 | 798,002 | 539,960 |
| Interest and Fiscal Charges | 183,215 | 183,215 | 56,939 | 56,939 |
| Total Expenses | <u>\$41,836,681</u> | <u>\$37,447,642</u> | <u>\$40,605,415</u> | <u>\$37,310,316</u> |

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Almost 92 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 90 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$42,537,179 and expenditures of \$42,910,993. The net positive change of \$89,635,399 fund balance for the year was due to the issuance of bonds and bond anticipation notes. The notes were repaid after the fiscal year-end.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the District amended its General Fund budget as needed.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

During the course of fiscal 2005, the District amended its General Fund budget several times. The budget for revenues was increased by \$2,681 and appropriations increased by \$912,748.

Final expenditures were budgeted at \$38,479,286 while actual expenditures and other financing uses and encumbrances were \$36,710,647. The \$1,768,639 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year. The District uses a conservative approach to budgeting revenues, thus actual General Fund revenues were \$1,114,793 higher than final budgeted revenues. Actual General Fund revenues were less than expenditures by \$630,301. During fiscal year 2005, interest revenue decreased significantly due to the declining economy.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$4,793,888 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see Note 7 to the basic financial statements.

Debt

At June 30, 2005, the District had \$45,874,993 in bonded debt. The bonds were issued for the construction of school buildings. The bonds will mature on December 1, 2032.

The District has energy conservation bonds, which will mature in 2008. The monies from these notes updated heating systems and lighting to conserve energy and are repaid with money saved in energy costs. The District also issued capital related notes against the first two years collection of the permanent improvement levy.

At June 30, 2005, the District's overall legal debt margin was \$15,812,938 with a direct limit un-voted debt margin of \$660,644.

For further information regarding the District's debt, see Note 13 to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. The District is a suburban community of 22,400 people in Northwest Ohio. It has two refineries, an electric generating plant and a number of small businesses with agriculture being an important part of the economy.

The District is currently operating in the first year of the state biennium budget. According to the 2005 Local District Report Card 67.60% percent of District revenue sources are from local funds, 27.0% percent from state funds and the remaining 5.4% percent is from federal funds. The total expenditure per pupil was calculated at \$9,486, which is a \$372 increase from the 2004 report card.

Over the past several years, the District has remained in a good financial position. In 1996, the District passed a 3.4 mill-operating levy to generate \$1,527,000. This levy provides a continuous source of funds for the financial operations and stability of the District.

The District also passed a replacement 2.0 mill permanent improvement levy in 2002. This generates approximately \$1,000,000 in revenue to be used for maintaining, equipping and improving facilities of the District.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

The District passed a 5.9 mill-operating levy in November 2003 to generate approximately \$3,100,000 per year. This levy provides a continuous source of funds for the financial operations and stability of the District.

The District then passed a 4.4 mill bond issue in November 2004, which generates enough to repay \$45 million in bonds over 28 years. These funds will be use to build a new elementary school and provide for a major renovation and an addition to the high school, and will also provide for renovation of the other three elementary buildings.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Treasurer, Oregon City School District, 5721 Seaman Road, Oregon, Ohio 43616.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Statement of Net Assets
June 30, 2005**

| | | <u>Governmental Activities</u> |
|---|----|---|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ | 99,673,366 |
| Materials and Supplies Inventory | | 39,531 |
| Receivables: | | |
| Accrued Interest | | 6,199 |
| Accounts | | 10,843 |
| Intergovernmental | | 230,234 |
| Taxes | | 31,623,857 |
| Prepaid Items | | 357,210 |
| Capital Assets | | |
| Non-Depreciable Capital Assets | | 525,507 |
| Depreciable Capital Assets, Net | | 4,268,381 |
| Total Assets | | <u>136,735,128</u> |
| Liabilities: | | |
| Accounts Payable | | 665,598 |
| Accrued Wages and Benefits Payable | | 3,951,574 |
| Intergovernmental Payable | | 895,679 |
| Accrued Interest Payable | | 138,791 |
| Matured Compensated Absences Payable | | 82,440 |
| Deferred Revenue | | 25,697,105 |
| Long Term Liabilities: | | |
| Due Within One Year | | 47,355,869 |
| Due in More Than One Year | | 49,921,923 |
| Total Liabilities | | <u>128,708,979</u> |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | | 3,442,927 |
| Restricted for Debt Service | | 1,505,509 |
| Restricted for Capital Outlay | | 1,520,730 |
| Restricted for Other Purposes | | 726,429 |
| Unrestricted | | 830,554 |
| Total Net Assets | \$ | <u><u>8,026,149</u></u> |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Change in Net Assets</u> |
|------------------------------------|----------------------|---|---|---|---|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 15,708,727 | \$ 920,865 | \$ 316,814 | \$ 33,600 | \$ (14,437,448) |
| Special | 3,119,489 | | 282,048 | | (2,837,441) |
| Vocational | 3,487,769 | | 21,662 | | (3,466,107) |
| Adult/Continuing | 703,975 | 280,445 | 132,839 | | (290,691) |
| Other | 1,806,699 | | | | (1,806,699) |
| Support Services: | | | | | |
| Pupils | 1,358,916 | | 34,486 | | (1,324,430) |
| Instructional Staff | 2,444,355 | | 72,389 | | (2,371,966) |
| Board of Education | 25,842 | | | | (25,842) |
| Administration | 2,613,906 | | 654,151 | | (1,959,755) |
| Fiscal | 730,050 | | | | (730,050) |
| Business | 286,391 | | | | (286,391) |
| Operation and Maintenance of Plant | 5,146,819 | | | | (5,146,819) |
| Pupil Transportation | 1,740,430 | | | | (1,740,430) |
| Central | 6,381 | | | | (6,381) |
| Non-Instructional Services | 1,723,256 | 874,484 | 765,256 | | (83,516) |
| Extracurricular Activities | 750,461 | | | | (750,461) |
| Interest and Fiscal Charges | 183,215 | | | | (183,215) |
| Total Governmental Activities | <u>\$ 41,836,681</u> | <u>\$ 2,075,794</u> | <u>\$ 2,279,645</u> | <u>\$ 33,600</u> | <u>\$ (37,447,642)</u> |

General Revenues:

Taxes:

| | |
|---|-------------------|
| Property Taxes, Levied for General Purposes | 23,827,257 |
| Property Taxes, Levied for Capital Outlay | 1,156,871 |
| Property Taxes, Levied for Debt Service | 1,518,413 |
| Payments in Lieu of Taxes | 2,391,290 |
| Grants and Entitlements not Restricted to Specific Programs | 11,197,597 |
| Gifts and Donations | 29,912 |
| Investment Earnings | 631,716 |
| Miscellaneous | 279,421 |
| Total General Revenues | <u>41,032,477</u> |

| | |
|------------------------------|---------------------|
| Change in Net Assets | 3,584,835 |
| Net Assets Beginning of Year | 4,441,314 |
| Net Assets End of Year | <u>\$ 8,026,149</u> |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

| | General Fund | Capital Projects Accumulation Fund | Other Governmental Funds | Totals Governmental Funds |
|--|-------------------------|---|---|--|
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 6,148,439 | \$ 90,326,229 | \$ 2,916,321 | \$ 99,390,989 |
| Receivables: | | | | |
| Accrued Interest | 6,199 | | | 6,199 |
| Accounts | 6,817 | | 4,026 | 10,843 |
| Interfund | 84,193 | | | 84,193 |
| Intergovernmental | | | 230,234 | 230,234 |
| Taxes | 27,296,967 | | 4,326,890 | 31,623,857 |
| Prepaid Items | 343,760 | | 13,450 | 357,210 |
| Materials and Supplies Inventory | | | 39,531 | 39,531 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 282,377 | | | 282,377 |
| Total Assets | \$ 34,168,752 | \$ 90,326,229 | \$ 7,530,452 | \$ 132,025,433 |
| Liabilities: | | | | |
| Accounts Payable | \$ 119,310 | \$ 505,687 | \$ 40,601 | \$ 665,598 |
| Accrued Wages and Benefits | 3,800,294 | | 151,280 | 3,951,574 |
| Interfund Payable | | | 84,193 | 84,193 |
| Intergovernmental Payable | 846,459 | | 49,220 | 895,679 |
| Matured Compensated Absences Payable | 82,140 | | 300 | 82,440 |
| Deferred Revenue | 26,828,879 | | 4,454,372 | 31,283,251 |
| Total Liabilities | \$ 31,677,082 | \$ 505,687 | \$ 4,779,966 | \$ 36,962,735 |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 424,456 | | 160,896 | 585,352 |
| Reserved for Prepaid Items | 343,760 | | 13,450 | 357,210 |
| Reserved for Property Taxes | 468,088 | | 102,752 | 570,840 |
| Reserved for Textbooks | 80,817 | | | 80,817 |
| Reserved for Budget Stabilization | 201,560 | | | 201,560 |
| Unreserved, Undesignated Reported In | | | | |
| General Fund | 972,989 | | | 972,989 |
| Special Revenue Funds | | | 435,552 | 435,552 |
| Debt Service Funds | | | 1,140,583 | 1,140,583 |
| Capital Projects Funds | | 89,820,542 | 897,253 | 90,717,795 |
| Total Fund Balances | \$ 2,491,670 | \$ 89,820,542 | \$ 2,750,486 | \$ 95,062,698 |
| Total Liabilities and Fund Balances | \$ 34,168,752 | \$ 90,326,229 | \$ 7,530,452 | \$ 132,025,433 |

See Accompanying Notes to the Basic Financial Statements.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

| | | |
|--|--------------------|-------------------------|
| Total Governmental Fund Balances | \$ | 95,062,698 |
| Amounts reported for governmental activities on the statement of net assets are different because of the following: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. | | 4,793,888 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: | | |
| Deferred Revenue | | 5,586,146 |
| Some liabilities are not due and payable in the current period and, therefore, not reported in the funds: | | |
| General Obligation Bonds Payable | (45,350,961) | |
| Accrued Interest Payable | (138,791) | |
| Notes Payable | (45,525,000) | |
| Compensated Absences/Vacation Payable | <u>(6,401,831)</u> | |
| | | <u>(97,416,583)</u> |
| Net Assets of Governmental Activities | \$ | <u><u>8,026,149</u></u> |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

| | General Fund | Capital Projects Accumulation Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|---|---|---|
| Revenues: | | | | |
| Property and Other Local Taxes | \$ 21,513,038 | \$ | \$ 2,161,055 | \$ 23,674,093 |
| Payments in Lieu of Taxes | 2,286,474 | | 104,816 | 2,391,290 |
| Intergovernmental | 11,083,745 | | 2,380,428 | 13,464,173 |
| Interest | 219,592 | 376,236 | 35,888 | 631,716 |
| Tuition and Fees | 676,320 | | 280,445 | 956,765 |
| Rent | 14,717 | | | 14,717 |
| Extracurricular Activities | | | 214,352 | 214,352 |
| Gifts and Donations | | | 29,912 | 29,912 |
| Customer Sales and Services | 13,276 | | 876,684 | 889,960 |
| Miscellaneous | 204,709 | | 65,492 | 270,201 |
| Total Revenues | 36,011,871 | 376,236 | 6,149,072 | 42,537,179 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,035,217 | | 323,300 | 15,358,517 |
| Special | 2,742,656 | | 380,212 | 3,122,868 |
| Vocational | 3,491,264 | | 10,374 | 3,501,638 |
| Adult/Continuing | 236,776 | | 473,401 | 710,177 |
| Other | 1,806,699 | | | 1,806,699 |
| Support services: | | | | |
| Pupils | 1,242,487 | | 118,300 | 1,360,787 |
| Instructional Staff | 2,175,889 | | 274,125 | 2,450,014 |
| Board of Education | 25,842 | | | 25,842 |
| Administration | 2,274,927 | | 332,038 | 2,606,965 |
| Fiscal | 716,358 | | 32,365 | 748,723 |
| Business | 286,391 | | | 286,391 |
| Operation and Maintenance of Plant | 4,468,337 | 555,687 | 556,482 | 5,580,506 |
| Pupil Transportation | 1,956,531 | | 165,015 | 2,121,546 |
| Central | | | 6,381 | 6,381 |
| Operation of Non-Instructional Services | | | 1,720,996 | 1,720,996 |
| Extracurricular activities | 559,984 | | 190,477 | 750,461 |
| Capital Outlay | | | 19,026 | 19,026 |
| Debt Service | | | | |
| Principal Retirement | 165,000 | | 525,000 | 690,000 |
| Interest and Fiscal Charges | 24,293 | | 19,163 | 43,456 |
| Total Expenditures | 37,208,651 | 555,687 | 5,146,655 | 42,910,993 |
| Excess of Revenues Over (Under) Expenditures | (1,196,780) | (179,451) | 1,002,417 | (373,814) |
| Other Financing Sources (Uses): | | | | |
| General Obligation Bonds Issued | | 44,999,993 | | 44,999,993 |
| Notes Payable Issued | | 45,000,000 | | 45,000,000 |
| Proceeds from Sale of Capital Assets | 9,220 | | | 9,220 |
| Total Other Financing Sources (Uses) | 9,220 | 89,999,993 | - | 90,009,213 |
| Net Change in Fund Balance | (1,187,560) | 89,820,542 | 1,002,417 | 89,635,399 |
| Fund Balances at Beginning of Year | 3,679,230 | | 1,748,069 | 5,427,299 |
| Fund Balances at End of Year | \$ 2,491,670 | \$ 89,820,542 | \$ 2,750,486 | \$ 95,062,698 |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 89,635,399

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

| | | |
|---|-----------|-----------|
| Capital Outlay - Depreciable Capital Assets | 19,026 | |
| Depreciation | (319,497) | |
| | | |
| Excess of Depreciation over Capital Outlay | | (300,471) |

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

| | | |
|---|--|-------|
| Gain (Loss) on Disposal of Capital Assets | | (266) |
|---|--|-------|

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

| | | |
|--|-----------|-----------|
| Property Taxes | 2,828,448 | |
| Intergovernmental | 46,669 | |
| | | |
| Net Change in Deferred Revenue During the Year | | 2,875,117 |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

690,000

Some expenses reported on the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

| | | |
|--|-----------|---------|
| Increase in Accrued Interest Payable | (138,791) | |
| Accretion of Bonds | (968) | |
| Decrease in Severance Payable | 718,616 | |
| Decrease in Compensated Absences Payable | 106,192 | |
| | | |
| Total Additional Expenses | | 685,049 |

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

| | | |
|---|----|--------------|
| Notes Payable Issued | | (45,000,000) |
| General Obligation Bonds Issued | | (44,999,993) |
| | | |
| Change in Net Assets of Governmental Activities | \$ | 3,584,835 |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|------------------------|---------------------|---------------------|---------------------------------------|
| REVENUES: | | | | |
| Property and Other Local Taxes | \$ 21,467,424 | \$ 21,467,424 | \$ 21,701,543 | \$ 234,119 |
| Intergovernmental | 11,383,595 | 11,383,595 | 11,888,084 | 504,489 |
| Payment in Lieu of Taxes | 1,439,000 | 1,439,000 | 1,438,255 | (745) |
| Interest | 100,000 | 100,000 | 281,862 | 181,862 |
| Tuition and Fees | 473,500 | 473,500 | 670,390 | 196,890 |
| Rent | 11,800 | 11,800 | 14,717 | 2,917 |
| Customer Sales and Services | 13,050 | 13,050 | 13,276 | 226 |
| Miscellaneous | 19,000 | 21,681 | 16,716 | (4,965) |
| Total Revenues | 34,907,369 | 34,910,050 | 36,024,843 | 1,114,793 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 14,793,454 | 15,045,719 | 14,647,150 | 398,569 |
| Special | 2,826,649 | 2,857,126 | 2,647,416 | 209,710 |
| Vocational | 3,399,212 | 3,431,586 | 3,387,219 | 44,367 |
| Adult/Continuing | 233,500 | 233,500 | 234,205 | (705) |
| Other | 2,000,000 | 2,000,000 | 1,806,699 | 193,301 |
| Support Services: | | | | |
| Pupils | 1,529,434 | 1,541,859 | 1,168,849 | 373,010 |
| Instructional Staff | 2,280,792 | 2,330,095 | 2,118,737 | 211,358 |
| Board of Education | 34,950 | 34,950 | 33,742 | 1,208 |
| Administration | 2,192,917 | 2,216,821 | 2,211,949 | 4,872 |
| Fiscal | 708,895 | 726,895 | 709,518 | 17,377 |
| Business | 283,405 | 283,405 | 272,649 | 10,756 |
| Operation and Maintenance of Plant | 4,547,769 | 5,021,769 | 4,683,934 | 337,835 |
| Pupil Transportation | 2,005,663 | 2,025,663 | 1,988,512 | 37,151 |
| Extracurricular Activities | 540,605 | 540,605 | 555,272 | (14,667) |
| Debt Service: | | | | |
| Principal | 165,000 | 165,000 | 165,000 | |
| Interest | 24,293 | 24,293 | 24,293 | |
| Total Expenditures | 37,566,538 | 38,479,286 | 36,655,144 | 1,824,142 |
| Excess of Revenues Over (Under) Expenditures | (2,659,169) | (3,569,236) | (630,301) | 2,938,935 |
| OTHER FINANCING SOURCES AND USES: | | | | |
| Proceeds from Sale of Capital Assets | | | 9,220 | 9,220 |
| Refund of Prior Year Expenditures | 100,000 | 100,000 | 217,499 | 117,499 |
| Advances In | 223,166 | 223,166 | 223,166 | 0 |
| Advances Out | | | (55,503) | (55,503) |
| Total Other Financing Sources and Uses | 323,166 | 323,166 | 394,382 | 71,216 |
| Net Change in Fund Balances | (2,336,003) | (3,246,070) | (235,919) | 3,010,151 |
| Fund Balance (Deficit) at Beginning of Year | 6,042,078 | 6,042,078 | 6,042,078 | 0 |
| Prior Year Encumbrances Appropriated | 234,483 | 234,483 | 234,483 | 0 |
| Fund Balance (Deficit) at End of Year | \$ 3,940,558 | \$ 3,030,491 | \$ 6,040,642 | \$ 3,010,151 |

See Accompanying Notes to the Basic Financial Statements

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

| | <u>Private Purpose Trust</u> | <u>Agency</u> |
|--|----------------------------------|-------------------|
| Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ <u>262,011</u> | \$ <u>161,791</u> |
| Liabilities: | | |
| Due to Students | <u> </u> | \$ <u>161,791</u> |
| Net Assets: | | |
| Held in Trust for Scholarships | \$ 23,861 | |
| Endowment | <u>238,150</u> | |
| Total Net Assets | \$ <u>262,011</u> | |

See Accompanying Notes to the Basic Financial Statements.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005**

| | Private Purpose Trust |
|---------------------------------|----------------------------------|
| Additions: | |
| Interest | \$ 6,315 |
| Total Additions | <u>6,315</u> |
| | |
| Deductions: | |
| Scholarships | <u>9,150</u> |
| | <u>9,150</u> |
| | |
| Change in Net Assets | (2,835) |
| | |
| Net Assets at Beginning of Year | <u>264,846</u> |
| Net Assets at End of Year | <u>\$ <u>262,011</u></u> |

See Accompanying Notes to the Basic Financial Statements.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Oregon City School District (the District) is located in Lucas County including all of the City of Oregon, Ohio, and portions of surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 4 elementary schools, 2 middle schools, and 1 comprehensive high school. The District employs 187 non-certified employees and 311 (including administrative) full-time and part-time employees to provide services to approximately 3,819 students in grades K through 12 and various community groups.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the District.

The District is associated with a jointly governed organization, the Northwest Ohio Computer Association. This organization is presented in Note 15 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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.

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental 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.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

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 only 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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Projects Accumulation Fund - The Capital Projects Accumulation Fund is used to account for the revenues and expenditures related to the construction of new school buildings.

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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 Private Purpose Trust Fund is reported using the economic resources measurement focus. 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. 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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or 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.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

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. 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, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 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 the governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as intergovernmental 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and United States Agency Bonds and Notes. Investments are reported at fair value, which is based on quoted market prices.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$219,592 that includes \$32,939, which was attributed to other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity 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 that are not purchased from the pool are reported as investments.

F. Payments in Lieu of Taxes

The District receives payments from BP Oil Company in lieu of taxes that would be due the District per an Enterprise zone agreement that allows tax abatement to BP Oil Company. This abatement stipulates that BP Oil Company will pay the District an amount of money that would be equal to the taxes the District would have received.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

On the 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 the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure, except for the Food Service Fund. Inventories of the Food Service Fund consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

I. 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, contributor's grantors, or laws of other government 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 and textbooks.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

J. Capital Assets

General capital assets are those assets not specifically related to activities. 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Estimated Lives |
|-------------------------------------|-----------------|
| Land Improvements | 15 - 30 years |
| Buildings and Building Improvements | 15 - 30 years |
| Furniture and Fixtures | 5 - 20 years |
| Vehicles | 5 - 15 years |
| Equipment | 10 years |

K. Interfund Balances

On the 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 activities columns of the statement of net assets.

L. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." The District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. These compensated absences are measured using rates in effect at June 30, 2005.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is reported on the statement of net assets.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

M. Accrued Liabilities and Long-Term Obligations

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

N. Net Assets

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

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

O. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, prepaid items, textbook set-asides, budget stabilization, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization and textbook set-asides represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The reserve for encumbrances represents commitments for purchases and the reserve for prepaid items represents amounts paid in advance for services.

P. Interfund Transactions

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

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Q. Estimates

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

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

| Net Change in Fund Balance Major Governmental Fund | |
|---|----------------|
| | General |
| GAAP Basis | (\$1,187,560) |
| Increase (Decrease) Due To: | |
| Revenue Accruals: | |
| Accrued FY 2004, Received In Cash FY 2005 | 719,016 |
| Accrued FY 2005, Not Yet Received in Cash | (706,044) |
| Expenditure Accruals: | |
| Accrued FY 2004, Paid in Cash FY 2005 | (3,469,255) |
| Accrued FY 2005, Not Yet Paid in Cash | 4,723,927 |
| Advances Net | 167,663 |
| Encumbrances Outstanding at Year End (Budget Basis) | (483,666) |
| Budget Basis | (\$235,919) |

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District Treasury. Active 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 has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

At year end, the District had \$6,592 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the District's deposits was \$6,326,546. \$6,708,286 of the District's bank balance of \$6,848,421 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the District had the following investments:

| <u>Investment Type</u> | <u>Carrying and Fair Value</u> | <u>Maturity</u> | |
|--|------------------------------------|-----------------------------|---------------------|
| | | <u>Less than 1 year</u> | <u>1-2 years</u> |
| Federal Farm Credit Bank | 297,797 | 297,797 | |
| Federal National Mortgage Association Notes | 8,050,012 | 595,012 | \$7,455,000 |
| Federal Home Loan Mortgage Corporation Notes | 59,316,566 | 59,168,335 | 148,231 |
| Federal Home Loan Bank Notes | 23,678,877 | 8,621,439 | 15,057,438 |
| STAR Ohio | 2,420,778 | 2,420,778 | |
| Total Investments | <u>\$93,764,030</u> | <u>\$71,103,361</u> | <u>\$22,660,669</u> |

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk - The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and Federal Home Loan Bank Notes carry a rating of AAA by Moody's and AAA by Standard and Poor's. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Custodial Credit Risk - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal Farm Credit Bank, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and the Federal Home Loan Bank Notes are held by the counterparty's trust department or agent and not in the District's name. The District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the District's investment in a single issuer. More than 5 percent of the District's investments are in FNMA, FHLMC and FHLB. These investments are 8.6%, 63.3 % and 25.3%, respectively, of the District's total investments.

Of the District's total investments, \$9,711,382 is callable which includes \$297,797 of FFCB, \$8,819,127 of FHLB, \$148,231 of FHLMC and \$446,227 of FNMA. The District's policy places no limit on the amount that may be invested in any one issuer.

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 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, 2002, were levied after April 1, 2003, and were collected in 2004 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 Wood and Lucas Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties 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.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

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 \$468,088 in the General Fund and \$102,752 in the Capital Projects Fund.

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

| | 2004 Second- Half Collections | | 2005 First- Half Collections | |
|--|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Industrial/Commercial | \$109,766,030 | 17% | \$115,829,110 | 18% |
| Agricultural/Residential | 365,633,480 | 57% | 372,646,530 | 56% |
| Public Utility | 48,679,700 | 8% | 48,956,380 | 7% |
| Tangible Personal | 118,784,931 | 18% | 123,211,663 | 19% |
| Total Assessed Value | <u>\$642,864,141</u> | <u>100%</u> | <u>\$660,643,683</u> | <u>100%</u> |
| Tax rate per \$1,000 of assessed valuation | \$55.10 | | \$59.50 | |

6. RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes, intergovernmental, accounts and interfund loans. 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 intergovernmental receivables follows:

| | Amount |
|-------------------------------|---------------------|
| Governmental Activities | |
| Taxes | \$31,623,857 |
| Intergovernmental | 230,234 |
| Total Governmental Activities | <u>\$31,854,091</u> |

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

7. CAPITAL ASSETS

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

| | <u>Balance at 6/30/04</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at 6/30/05</u> |
|---|-------------------------------|--------------------|-------------------|-------------------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$495,967 | | | \$495,967 |
| Construction In Progress | 29,540 | | | 29,540 |
| Total Nondepreciable Capital Assets | <u>525,507</u> | | | <u>525,507</u> |
| Depreciable Capital Assets | | | | |
| Land Improvements | 405,864 | | | 405,864 |
| Buildings and Building Improvements | 12,151,764 | | | 12,151,764 |
| Furniture, Fixtures, and Equipment | 5,902,489 | \$19,026 | \$641 | 5,920,874 |
| Vehicles | 3,020,383 | | | 3,020,383 |
| Totals | <u>21,480,500</u> | <u>19,026</u> | <u>641</u> | <u>21,498,885</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 18,264 | | | 18,264 |
| Buildings and Building Improvements | 10,465,647 | 22,110 | | 10,487,757 |
| Furniture, Fixtures, and Equipment | 4,503,612 | 168,900 | 375 | 4,672,137 |
| Vehicles | 1,923,859 | 128,487 | | 2,052,346 |
| Total Accumulated Depreciation | <u>16,911,382</u> | <u>319,497</u> | <u>375</u> | <u>17,230,504</u> |
| Depreciable Capital Assets, Net | <u>4,569,118</u> | <u>(300,471)</u> | <u>266</u> | <u>4,268,381</u> |
| Governmental Activities Capital Assets, Net | <u>\$5,094,625</u> | <u>(\$300,471)</u> | <u>\$266</u> | <u>\$4,793,888</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---------------------------------------|------------------|
| Instruction: | |
| Regular | \$311,725 |
| Operation of Non-Instruction Services | <u>7,772</u> |
| Total Depreciation Expense | <u>\$319,497</u> |

8. INTERFUND ASSETS/LIABILITIES

As of June 30, 2005, on the fund financial statements, nonmajor funds owed the major General Fund \$84,193. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

9. RISK MANAGEMENT

A. Comprehensive

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (the Program), a public entity insurance purchasing pool that consists of school districts within Northwest Ohio. The District pays annual premiums into the program for comprehensive insurance coverage including liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property and contents are fully insured. The Program has an agreement with Marsh USA for administrative services and with Cambridge Integrated Services, Inc. for claims processing.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Health Insurance

The District is insured with private carriers for health, vision, and dental benefits for the eligible employees and their dependents. Health and vision coverage is through Medical Mutual of Ohio and dental insurance is through CoreSource, Inc.

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District participates in 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

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

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

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 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contributions for pension obligations for the DB Plan for fiscal years ended June 30, 2005, 2004, and 2003 were \$2,562,707, \$2,653,820, and \$2,347,157, respectively; 83 percent has been contributed for fiscal year 2005 and 100% has been contributed for fiscal years 2004 and 2003.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. 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 the SERS' website, www.ohsers.org, under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate, which is currently 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$758,640, \$446,045, and \$621,456, respectively; 48 percent has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003.

11. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

The retirement board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005 and June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated net claims.

The number of participants currently receiving health care benefits is approximately 58,123.

12. OPERATING LEASE

The District entered into an operating lease in fiscal year 2002 with the Northwest Ohio Computer Association (NWOCA) for a high bandwidth dedicated connection to NWOCA for a period of fifteen (15) years. The District elected a payment plan over 15 years, with annual payments of \$31,000. Lease payments totaled \$31,000 for the year.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005:

| Fiscal Year Ending June 30, | |
|------------------------------------|-----------|
| 2006 | \$31,000 |
| 2007 | 31,000 |
| 2008 | 31,000 |
| 2009 | 31,000 |
| 2010 | 31,000 |
| 2011 – 2015 | 155,000 |
| 2016 | 31,000 |
| Total Minimum Lease Payments | \$341,000 |

13. LONG-TERM OBLIGATIONS

A. During the fiscal year ended June 30, 2005, the following changes occurred in liabilities reported in the statement of net assets.

| | Balance 07/01/04 | Increase | Decrease | Balance 06/30/05 | Amount Due in One Year |
|----------------------------|-----------------------------|-----------------|-----------------|-----------------------------|-----------------------------------|
| Energy Conservation Bonds | \$455,000 | | \$105,000 | \$350,000 | \$110,000 |
| Construction Bonds | | \$42,845,000 | | 42,845,000 | 1,355,000 |
| Capital Appreciation Bonds | | 2,154,993 | | 2,154,993 | |
| Accretion on Bonds | | 968 | | 968 | |
| School Improvement Notes | 1,050,000 | | 525,000 | 525,000 | 525,000 |
| Bond Anticipation Notes | | 45,000,000 | | 45,000,000 | 45,000,000 |
| Energy Conservation Bonds | 60,000 | | 60,000 | | |
| Compensated Absences | 6,508,023 | 82,440 | 188,632 | 6,401,831 | 365,869 |
| Total | \$8,073,023 | \$90,083,401 | \$878,632 | \$97,277,792 | \$47,355,869 |

Construction Bonds – On May 12, 2005, the District issued \$44,999,993 bonds for the construction of buildings. The bonds consisted of \$42,845,000 in serial bonds and \$2,154,993 in capital appreciation bonds. The bonds have an interest rate of 4.5916 percent and will mature on December 1, 2032. The bonds will be retired from the Bond Retirement Debt Service Fund.

The capital appreciation bonds mature on December 1 and have the original principal amounts and mature with the accreted values at maturity, as follows:

| Maturity Date | Original Principal Amount | Accreted Value at Maturity |
|----------------------|--------------------------------------|---------------------------------------|
| 2012 | \$1,082,139 | \$1,145,000 |
| 2013 | 1,072,854 | 1,145,000 |

The value of the capital appreciation bonds at June 30, 2005 was \$2,155,961. The annual accretion of interest is based on interest rate of .864 percent. Total accreted interest of \$968 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**OREGON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

During fiscal years 1994 and 1998, energy conservation bonds were established under the rules of H.B. 264. The 1994 bond had an interest rate of 5.9 percent, while the 1998 bond had an interest rate of 4.95 percent with semi-annual payments of principal and interest. Proceeds of these loans were used to make energy improvements to all buildings of the District.

School Improvement Notes - On August 1, 2000, the District issued \$825,000 in voted general obligation notes for the purpose of renovating, rehabilitation, adding to, acquiring, furnishing, equipping and otherwise improving school facilities and sites. The notes were retired during the fiscal year.

School Improvement Notes - On September 15, 2003, the District issued \$1,050,000 in voted general obligation notes for the purpose of renovating, rehabilitation, adding to, acquiring, furnishing, equipping and otherwise improving school facilities and sites. The notes have an interest rate of 2.65 percent. The notes will be retired from the Capital Projects Fund.

Bond Anticipation Notes - On January 25, 2005, the District issued \$45,000,000 in voted general bond anticipation notes for the purpose of issuing bonds for renovating, rehabilitation, adding to, acquiring, furnishing, equipping and otherwise improving school facilities and sites. The notes have an interest rate of 2.6 percent. The notes will mature on July 25, 2005.

Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the General Fund.

- B.** The following is a schedule of the future debt service requirements to retire the bonds and notes outstanding:

| <u>Fiscal year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| 2006 | \$1,990,000 | \$1,665,486 | \$3,655,486 |
| 2007 | 1,090,000 | 1,881,953 | 2,971,953 |
| 2008 | 1,130,000 | 1,847,010 | 2,977,010 |
| 2009 | 1,035,000 | 1,810,672 | 2,845,672 |
| 2010 | 1,075,000 | 1,769,273 | 2,844,273 |
| 2011 – 2015 | 5,595,961 | 8,641,294 | 14,237,255 |
| 2016 - 2020 | 6,700,000 | 7,522,700 | 14,222,700 |
| 2021 – 2025 | 8,545,000 | 5,689,875 | 14,234,875 |
| 2026 – 2030 | 10,890,000 | 3,250,550 | 14,140,550 |
| 2031 - 2033 | 7,825,000 | 714,600 | 8,539,600 |
| Total | <u>\$45,875,961</u> | <u>\$34,793,413</u> | <u>\$80,669,374</u> |

- C.** The District's voted legal debt margin was \$15,812,938 with an unvoted debt margin of \$660,644 at June 30, 2005.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

14. SET-ASIDES

The District is required by state law to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years.

During the fiscal year ended June 30, 2005, the reserve activity was as follows:

| | Textbooks | Capital Improvements | Budget Stabilization |
|---|------------------|---------------------------------|---------------------------------|
| Set-aside Cash Balance as of June 30, 2004 | (\$303,000) | | \$201,560 |
| Current Year Set-aside Requirement | 573,491 | \$573,491 | |
| Qualifying Disbursements | (189,674) | (1,074,853) | |
| Total | <u>80,817</u> | <u>(\$501,362)</u> | <u>201,560</u> |
| Amount Carried Forward to Future Fiscal Years | <u>\$80,817</u> | | <u>\$201,560</u> |

Although no longer required by State statute, a budget stabilization reserve may still be set aside at the discretion of the District. The budget stabilization reserve consists of the amounts received from the Bureau of Worker's Compensation (BWC) in the form of refunds.

The total reserve activity of \$282,377 is shown as a reservation of fund balance in the basic financial statements.

15. JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, and Williams counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The NWOCA Assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the five counties in which the member school districts are located and the representative from the member school district serving as fiscal agent for NWOCA. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

16. 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.

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

17. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

There are currently no matters in litigation with the District as defendant.

C. Subsequent Events

The District paid bond anticipation notes of \$45,000,000 in July 25, 2005.

18. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

The District has elected to implement Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. Implementation of GASB 40 has no impact on the District's financial position or results of operations.

The District has implemented GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.* This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of this Bulletin had the following effect on fund balance of the General Fund as previously reported at June 30, 2004:

| | General Fund |
|--------------------------------------|---------------------|
| Fund Balance, June 30, 2004 | \$3,967,699 |
| GASB Technical Bulletin No. 2004-02 | (288,469) |
| Restated Fund Balance, June 30, 2004 | \$3,679,230 |

In prior years, the District recorded notes payable on the fund financial statements in the other governmental funds. The notes should have been reported as long-term and not reported on the fund financial statements. The adjustment had the following effect on fund balance of the other governmental funds as previously reported at June 30, 2004:

| | Other Governmental Funds |
|--------------------------------------|---|
| Fund Balance, June 30, 2004 | \$698,069 |
| Reporting Change | 1,050,000 |
| Restated Fund Balance, June 30, 2004 | \$1,748,069 |

OREGON CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

| Federal Grantor/Program Title | Pass Through Entity Number | CFDA Number | Receipts Recognized | Program Expenditures |
|---|----------------------------------|----------------|------------------------|-------------------------|
| <u>U.S. Department of Agriculture</u> | | | | |
| Passed Through the Ohio Department of Education | | | | |
| Nutrition Cluster: | | | | |
| Food Distribution | - | 10.550 | \$ 193,025 | \$ 193,025 |
| National School Breakfast Program | - | 10.553 | 41,661 | 41,661 |
| National School Lunch Program | - | 10.555 | <u>353,483</u> | <u>353,483</u> |
| Total Nutrition Cluster | | | <u>588,169</u> | <u>588,169</u> |
| Total U.S. Department of Agriculture | | | 588,169 | 588,169 |
| <u>U.S. Department of Education</u> | | | | |
| Pass through Ohio Department of Education | | | | |
| Special Education Cluster: | | | | |
| Title VI-B | 044602-6BSF-2004 | 84.027 | 423,917 | 407,430 |
| Title VI-B - IDEA-B | 044602-6BSF-2005 | 84.027 | <u>71,161</u> | <u>280,141</u> |
| Total Special Education Cluster | | | 495,078 | 687,571 |
| Title I | 044602-C1S1-2004 | 84.010 | 21,799 | 21,799 |
| Title I | 044602-C1S1-2005 | 84.010 | <u>282,048</u> | <u>251,161</u> |
| Total Title I | | | 303,847 | 272,960 |
| Title II-A Improving Teacher Quality | 044602-TR-S1-04 | 84.367 | 114,382 | 71,581 |
| Title II-A Improving Teacher Quality | 044602-TR-S1-05 | 84.367 | <u>126,200</u> | <u>103,018</u> |
| Total Title II-A | | | 240,582 | 174,599 |
| Title II-D - Educational Technology | 044602-TJS1-2004 | 84.318 | 1,719 | 3,437 |
| Title II-D - Educational Technology | 044602-TJS1-2005 | 84.318 | <u>7,497</u> | <u>7,497</u> |
| Total Title II-D | | | 9,216 | 10,934 |
| Voed Basic Grant | 20C1-2004 | 84.048 | 33,196 | 33,196 |
| Voed Basic Grant | 20C1-2005 | 84.048 | <u>54,718</u> | <u>53,387</u> |
| Total Voed Basic Grant | | | 87,914 | 86,583 |
| Innovative Education Program Strategies | 044602-C2S1-2005 | 84.298 | <u>17,671</u> | <u>17,671</u> |
| Total Innovative Education Program Strategies | | | 17,671 | 17,671 |
| Adult Basic Education | 044602-ABS1-2003 | 84.002 | 4,750 | 4,750 |
| Adult Basic Education | 044602-ABS1-2004 | 84.002 | <u>25,631</u> | <u>25,631</u> |
| Total Adult Basic Education | | | 30,381 | 30,381 |
| Safe and Drug Free Program | 044602-DRS1-2004 | 84.186 | 4,055 | 5,333 |
| Safe and Drug Free Program | 044602-DRS1-2005 | 84.186 | <u>13,486</u> | <u>4,036</u> |
| Total Safe and Drug Free Program | | | 17,541 | 9,369 |
| Total U.S. Department of Education | | | <u>1,202,230</u> | <u>1,290,068</u> |

OREGON CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

| Federal Grantor/Program Title | Pass Through Entity Number | CFDA Number | Receipts Recognized | Program Expenditures |
|--|----------------------------------|----------------|------------------------|-------------------------|
| <u><i>U.S. Department of Health and Human Services</i></u> | | | | |
| Pass Through Ohio Department of Mental Retardation and Developmental Disabilities | | | | |
| Medicaid Title XIX | N/A | 93.778 | 68,825 | 68,825 |
| Total Medicaid Title XIX | | | 68,825 | 68,825 |
| Total U.S.Department of Health and Human Services | | | 68,825 | 68,825 |
| Total Federal Awards | | | <u>\$ 1,859,224</u> | <u>\$ 1,947,062</u> |

See accompanying Notes to the Schedule of Federal Awards Expenditures

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005**

1. Significant Accounting Policies

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

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had commodities in inventory recorded in the Food Service Fund.

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INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Oregon City School District
Lucas County
5721 Seaman Road
Oregon, Ohio 43616

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oregon City School District, Lucas County as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 20, 2006, wherein we noted the District implemented GASB Technical Bulletin No. 2004-2, and GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-Oregon-01.

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. However, we do not consider the reportable condition described above to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated July 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we reported to the management of the District in a separate letter dated July 20, 2006.

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

Charles E. Harris & Associates, Inc.
July 20, 2006

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Certified Public Accountants

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

Oregon City School District
Lucas County
5721 Seaman Road
Oregon, Ohio 43616

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program cluster 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 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 intended for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.

July 20, 2006

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

**OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY
June 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|---|--|
| (d)(1)(i) | <i>Type of Financial Statement Opinion</i> | Unqualified |
| (d)(1)(ii) | <i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i> | No |
| (d)(1)(ii) | <i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i> | Yes |
| (d)(1)(iii) | <i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i> | No |
| (d)(1)(iv) | <i>Were there any material internal control weakness conditions reported for major federal programs?</i> | No |
| (d)(1)(iv) | <i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i> | No |
| (d)(1)(v) | <i>Type of Major Programs' Compliance Opinion</i> | Unqualified |
| (d)(1)(vi) | <i>Are there any reportable findings under Section .510</i> | No |
| (d)(1)(vii) | <i>Major Programs:</i> | Nutrition Cluster Food Distribution CFDA 10.550 National School Breakfast CFDA 10.553 National School Lunch CFDA 10.555 |
| (d)(1)(viii) | <i>Dollar Threshold: Type A\B Programs</i> | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | <i>Low Risk Auditee?</i> | Yes |

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

OREGON CITY SCHOOL DISTRICT
LUCAS COUNTY
June 30, 2005

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

Finding Number 2005-Oregon-01

The amount of appropriations posted to the USAS budgetary reports did not agree with the approved appropriation resolutions adopted by the Board of Education. Budgetary variances need to be monitored on a regular basis and the Districts needs to have timely and accurate information on the budgetary statements used in this review. We recommend the District establish procedures to ensure accurate appropriation information is posted to the USAS system as soon as approved by the Board of Education.

Management Response:

The District will update the USAS system when new appropriations are approved.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**OREGON CITY SCHOOLS
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: Per ADAM 2001-10-disclose the current year finding in this schedule |
|-----------------------|---|-------------------------|--|
| 2003-001 | Ohio Revised Code Section 5705. 39- Appropriations exceeding Estimated resources Appropriations | No | Partially Corrected. Now a Management Letter Item |
| 2003-002 | Reportable Condition - Budgetary Procedures | No | Not Corrected. Reissued as Finding number 2005-Oregon-01 |



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OREGON CITY SCHOOL DISTRICT

LUCAS 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 9, 2006**