



**Auditor of State
Betty Montgomery**

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison - General Fund	17
Statement of Fiduciary Net Assets - Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	20
Notes to the Basic Financial Statements	21
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	55

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Central Local School District
Defiance County
06289 U.S. Highway 127
Sherwood, Ohio 43556-9735

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, (the District), as of and for the year ended June 30 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the 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 Central Local School District, Defiance County, Ohio, as of June 30 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its policy regarding capital asset capitalization.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 of 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.



Betty Montgomery
Auditor of State

January 21, 2005

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004**

The discussion and analysis of Central Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets decreased \$152,589.
- General revenues accounted for \$8,569,984, or 89 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,060,179 or 11 percent of total revenues of \$9,630,163.
- The District's major fund included the General Fund. The General Fund had \$8,108,143 in revenues and other financing sources and \$8,528,082 in expenditures. The General Fund's balance decreased \$419,939 from the prior fiscal year.
- The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

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 non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund is the only major fund.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' 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 discloses 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. These services are primarily funded by property tax and income revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

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 District's major governmental fund is the General Fund. While the District uses many funds to account for its financial transactions, this fund is the most significant.

Governmental Funds - Most of the District's activities are reported in 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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1
Net Assets
Governmental Activities

	<u>2004</u>
Assets:	
Current and Other Assets	\$ 5,668,926
Capital Assets, Net	<u>11,329,325</u>
<i>Total Assets</i>	<u>16,998,251</u>

(Continued)

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 1 (Continued)
Net Assets
Governmental Activities

	2004
Liabilities:	
Current and Other Liabilities	3,117,556
Long-Term Liabilities	3,186,235
<i>Total Liabilities</i>	<u>6,303,791</u>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	9,004,194
Restricted	857,737
Unrestricted	832,529
<i>Total</i>	<u>\$ 10,694,460</u>

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 461,880
Operating Grants, Contributions and Interest	390,979
Capital Grants and Contributions	207,320
<i>Total Program Revenues</i>	<u>1,060,179</u>

(Continued)

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

Table 2 (Continued)
Change in Net Assets
Governmental Activities

	2004
General Revenues:	
Property Taxes	2,465,109
Income Taxes	686,699
Grants and Entitlements	5,325,008
Gifts and Donations	41,351
Investment Earnings	29,940
Miscellaneous	21,877
<i>Total General Revenues</i>	<i>8,569,984</i>
<i>Total Revenues</i>	<i>9,630,163</i>
 Expenses:	
Instruction	5,041,878
Support Services:	
Pupils	324,818
Instructional Staff	125,683
Board of Education	31,884
Administration	1,181,195
Fiscal	226,013
Business	50,732
Operation and Maintenance of Plant	760,914
Pupil Transportation	703,760
Central	119,931
Non-Instructional	441,116
Extracurricular Activities	422,615
Capital Outlay	211,618
Interest and Fiscal Charges	140,595
<i>Total Expenses</i>	<i>9,782,752</i>
<i>Decrease in Net Assets</i>	<i>\$ (152,589)</i>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(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. Comparisons to 2003 have not been presented since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$ 5,041,878	\$ 4,576,266
Support Services:		
Pupils	324,818	324,818
Instructional Staff	125,683	113,329
Board of Education	31,884	31,884
Administration	1,181,195	1,174,909
Fiscal	226,013	226,013
Business	50,732	50,732
Operation and Maintenance of Plant	760,914	760,914
Pupil Transportation	703,760	703,760
Central	119,931	119,931
Non-Instructional	441,116	154,792
Extracurricular Activities	422,615	304,657
Capital Outlay	211,618	39,973
Interest and Fiscal Charges	140,595	140,595
<i>Total Expenses</i>	<u>\$ 9,782,752</u>	<u>\$ 8,722,573</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 91 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 90 percent. The remaining 10 percent are derived from tuition and fees, specific grants, and donations.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues of \$9,466,091 and expenditures of \$9,794,310. The net negative change of \$328,219 in fund balance for the year indicates that the District would have difficulty in meeting current costs without using available carryover balances.

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 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$10,105,800 while actual expenditures were \$8,681,850. The \$1,423,950 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.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$11,329,325 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

Debt

At June 30, 2004, the District had \$2,325,131 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2023. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$5,748,842, with an un-voted debt margin of \$89,711.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
(Continued)**

For further information regarding the District's debt, see the notes 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. Sherwood, Mark Center, Farmer, and Ney are small rural communities located within the District. It has a number of small and medium businesses, with agriculture having a substantial contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 39 percent of District revenue sources are from local funds, 57 percent from state funds and the remaining 4 percent is from federal funds. The total expenditure per pupil was calculated at \$6,998.

In May 2001, the District passed a three-year emergency levy to generate \$615,000 annually. This three-year emergency levy was renewed in May 2003. This levy provides a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

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 Barbara Clark, Treasurer, Central Local School District, 06289 U.S. Highway 127, Sherwood, Ohio 43556-9735.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,737,300
Materials and Supplies Inventory	52,247
Accrued Interest Receivable	409
Accounts Receivable	943
Intergovernmental Receivable	132,031
Prepaid Items	25,758
Taxes Receivable	2,436,077
Income Taxes Receivable	284,161
Non-Depreciable Capital Assets	204,310
Depreciable Capital Assets, net	11,125,015
<i>Total Assets</i>	16,998,251
Liabilities	
Accounts Payable	5,273
Accrued Wages and Benefits	676,370
Intergovernmental Payable	182,884
Matured Compensated Absences Payable	115,520
Deferred Revenue	2,137,509
Long-Term Liabilities:	
Due Within One Year	80,000
Due in More Than One Year	3,106,235
<i>Total Liabilities</i>	6,303,791
Net Assets	
Invested in Capital Assets, Net of Related Debt	9,004,194
Restricted for Debt Service	112,176
Restricted for Capital Outlay	375,652
Restricted for Other Purposes	369,909
Unrestricted	832,529
<i>Total Net Assets</i>	\$ 10,694,460

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 3,828,384	\$ 62,872	\$ 111,237	\$ 35,675	\$ (3,618,600)
Special	818,411		253,328		(565,083)
Vocational	243,682		2,500		(241,182)
Other	151,401				(151,401)
Support Services:					
Pupils	324,818				(324,818)
Instructional Staff	125,683		12,354		(113,329)
Board of Education	31,884				(31,884)
Administration	1,181,195	6,286			(1,174,909)
Fiscal	226,013				(226,013)
Business	50,732				(50,732)
Operation and Maintenance of Plant	760,914				(760,914)
Pupil Transportation	703,760				(703,760)
Central	119,931				(119,931)
Operation of Non-Instructional Services	441,116	274,764	11,560		(154,792)
Extracurricular Activities	422,615	117,958			(304,657)
Capital Outlay	211,618			171,645	(39,973)
Debt Service:					
Interest and Fiscal Charges	140,595				(140,595)
<i>Totals</i>	\$ 9,782,752	\$ 461,880	\$ 390,979	\$ 207,320	(8,722,573)

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	2,210,097
Property Taxes, Levied for Capital Outlay	16,113
Property Taxes, Levied for Debt Service	198,390
Property Taxes, Levied for Other	40,509
Income Taxes	686,699
Grants and Entitlements not Restricted to Specific Programs	5,325,008
Gifts and Donations	41,351
Investment Earnings	29,940
Miscellaneous	21,877
<i>Total General Revenues</i>	8,569,984
Change in Net Assets	(152,589)
<i>Net Assets Beginning of Year (See Note 3)</i>	10,847,049
<i>Net Assets End of Year</i>	\$ 10,694,460

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,881,032	\$ 837,172	\$ 2,718,204
Materials and Supplies Inventory	34,752	17,495	52,247
Accrued Interest Receivable	409		409
Accounts Receivable	308	635	943
Interfund Receivable	121,367		121,367
Intergovernmental Receivable		132,031	132,031
Prepaid Items	25,758		25,758
Taxes Receivable	2,207,699	228,378	2,436,077
Income Taxes Receivable	284,161		284,161
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	19,096		19,096
<i>Total Assets</i>	\$ 4,574,582	\$ 1,215,711	\$ 5,790,293
Liabilities			
Current Liabilities:			
Accounts Payable	\$ 3,532	\$ 1,741	\$ 5,273
Accrued Wages and Benefits	643,413	32,957	676,370
Interfund Payable		121,367	121,367
Intergovernmental Payable	113,344	2,480	115,824
Matured Compensated Absences Payable	115,520		115,520
Deferred Revenue	2,020,064	321,267	2,341,331
<i>Total Liabilities</i>	2,895,873	479,812	3,375,685
Fund Balances			
Reserved:			
Reserved for Encumbrances	144,408	320,410	464,818
Reserved for Inventory	34,752	17,495	52,247
Reserved for Prepaid Items	25,758		25,758
Reserved for Property Taxes	236,679	27,726	264,405
Reserved for Textbooks and Instructional Materials	19,096		19,096
Unreserved, Undesignated, Reported in:			
General Fund	1,218,016		1,218,016
Special Revenue Funds		341,710	341,710
Debt Service Funds		88,252	88,252
Capital Projects Funds		(59,694)	(59,694)
<i>Total Fund Balances</i>	1,678,709	735,899	2,414,608
<i>Total Liabilities and Fund Balances</i>	\$ 4,574,582	\$ 1,215,711	\$ 5,790,293

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances \$ 2,414,608

*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. 11,329,325

Taxes Receivable that do not provide financial resources
are not reported as revenues in governmental fund. 203,822

Intergovernmental payable includes contractually required
pension contributions not expected to be paid with
available expendable resources, and therefore, not
reported in the funds. (67,060)

Some liabilities are not due and payable in the current
period and, therefore, not reported in the funds:

General Obligation Bonds Payable (2,325,131)

Compensated Absences Payable (861,104)

Net Assets of Governmental Activities \$ 10,694,460

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 2,210,735	\$ 254,719	\$ 2,465,454
Income Tax	637,655		637,655
Intergovernmental	5,207,315	600,619	5,807,934
Interest	26,840	3,100	29,940
Tuition and Fees	623	54,791	55,414
Rent	6,360		6,360
Extracurricular Activities		109,585	109,585
Gifts and Donations	11,679	29,672	41,351
Customer Sales and Services	1,098	289,423	290,521
Miscellaneous	4,201	16,039	20,240
<i>Total Revenues</i>	<u>8,106,506</u>	<u>1,357,948</u>	<u>9,464,454</u>
Expenditures			
Current:			
Instruction:			
Regular	3,749,715	114,523	3,864,238
Special	659,304	158,301	817,605
Vocational	251,196	6,810	258,006
Other	151,401		151,401
Support Services:			
Pupils	242,722	88,740	331,462
Instructional Staff	142,028	8,652	150,680
Board of Education	31,884		31,884
Administration	1,151,673	65,184	1,216,857
Fiscal	231,241	7,053	238,294
Business	45,944		45,944
Operation and Maintenance of Plant	759,717		759,717
Pupil Transportation	713,523		713,523
Central	105,597	14,760	120,357
Operation of Non-Instructional Services	338	417,937	418,275
Extracurricular Activities	266,790	130,679	397,469
Capital Outlay	25,009	53,884	78,893
Debt Service:			
Principal		75,000	75,000
Interest		124,705	124,705
<i>Total Expenditures</i>	<u>8,528,082</u>	<u>1,266,228</u>	<u>9,794,310</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(421,576)</u>	<u>91,720</u>	<u>(329,856)</u>
Other Financing Sources			
Proceeds from Sale of Fixed Assets	1,637		1,637
Net Change in Fund Balances	(419,939)	91,720	(328,219)
<i>Fund Balance at Beginning of Year (See Note 3)</i>	<u>2,098,648</u>	<u>644,179</u>	<u>2,742,827</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,678,709</u>	<u>\$ 735,899</u>	<u>\$ 2,414,608</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE 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, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (328,219)

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	400,349	
Depreciation	(591,842)	
	(191,493)	(191,493)

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 loss on disposal of capital assets on the statement of activities.

Gain on Disposal of Capital Assets		(13,646)
------------------------------------	--	----------

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

Intergovernmental	115,373	
Income Taxes	49,044	
Delinquent Property Taxes	(345)	
	164,072	164,072

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

75,000

Interest charges reported on the statement of activities, that do no require the use of current financial resources, are not reported as expenditures in governmental funds.

(15,890)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(3,927)	
Compensated Absences Payable	161,514	
	157,587	157,587

Change in Net Assets of Governmental Activities

\$ (152,589)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues				
Property and Other Local Taxes	\$ 2,145,000	\$ 2,053,000	\$ 2,165,468	\$ 112,468
Income Tax	650,000	650,000	666,770	16,770
Intergovernmental	4,916,911	4,932,832	5,209,090	276,258
Interest	42,000	42,000	27,351	(14,649)
Tuition and Fees	3,000	3,000	623	(2,377)
Rent	10,500	10,500	6,360	(4,140)
Gifts and Donations	15,000	15,000	11,679	(3,321)
Customer Sales and Services	1,170	1,170	1,098	(72)
Miscellaneous	32,400	32,400	4,975	(27,425)
<i>Total Revenues</i>	<u>7,815,981</u>	<u>7,739,902</u>	<u>8,093,414</u>	<u>353,512</u>
Expenditures				
Current:				
Instruction:				
Regular	3,842,297	4,077,618	3,800,079	277,539
Special	651,684	712,811	649,022	63,789
Vocational	249,194	254,044	231,169	22,875
Other	162,500	180,156	157,081	23,075
Support Services:				
Pupils	247,753	268,826	248,365	20,461
Instructional Staff	155,951	175,708	141,406	34,302
Board of Education	24,896	34,283	31,959	2,324
Administration	995,368	1,144,714	1,110,532	34,182
Fiscal	218,388	226,117	214,688	11,429
Business	64,040	72,012	56,147	15,865
Operation and Maintenance of Plant	813,711	940,818	755,395	185,423
Pupil Transportation	875,314	977,114	741,429	235,685
Central	143,371	147,616	103,415	44,201
Operation of Non-Instructional Services		338	338	
Extracurricular Activities	287,009	304,380	265,899	38,481
Capital Outlay	22,105	467,578	53,476	414,102
<i>Total Expenditures</i>	<u>8,753,581</u>	<u>9,984,133</u>	<u>8,560,400</u>	<u>1,423,733</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(937,600)</u>	<u>(2,244,231)</u>	<u>(466,986)</u>	<u>1,777,245</u>

(Continued)

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	8,000	8,000	1,637	(6,363)
Refund of Prior Year Expenditures	28,000	28,000	1,303	(26,697)
Advances In	2,440	2,440	2,440	
Refund of Prior Year Receipts	(300)	(300)	(83)	217
Advances Out		(121,367)	(121,367)	
Other Financing Uses	(1,177,917)			
<i>Total Other Financing Sources and Uses</i>	(1,139,777)	(83,227)	(116,070)	(32,843)
<i>Net Change in Fund Balance</i>	(2,077,377)	(2,327,458)	(583,056)	1,744,402
<i>Fund Balance at Beginning of Year</i>	2,060,093	2,060,093	2,060,093	
Prior Year Encumbrances Appropriated	275,177	275,177	275,177	
<i>Fund Balance at End of Year</i>	<u>\$ 257,893</u>	<u>\$ 7,812</u>	<u>\$ 1,752,214</u>	<u>\$ 1,744,402</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 5,171	\$ 43,918
<i>Total Assets</i>	5,171	43,918
Liabilities		
Undistributed Monies		43,918
<i>Total Liabilities</i>		43,918
Net Assets		
Held in Trust for Scholarships	5,171	
<i>Total Net Assets</i>	\$ 5,171	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$ 249
Miscellaneous	<u>100</u>
<i>Total Additions</i>	<u>349</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>300</u>
<i>Total Deductions</i>	<u>300</u>
Change in Net Assets	49
Net Assets Beginning of Year	<u>5,122</u>
<i>Net Assets End of Year</i>	<u><u>\$ 5,171</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Central Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Central Local School District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 59 non-certified and 85 certified full-time teaching personnel who provide services to 1,170 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. 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. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northern Buckeye Education Council's Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

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.

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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by 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 General Fund is the District's major governmental fund:

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.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of a private-purpose trust fund and Agency funds. Trust funds

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total 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 accounted for using a flow of economic resources measurement focus.

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. Fiduciary Funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Revenues - Exchange and Nonexchange 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned. 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the fund, function, object level for all funds. Any budgetary modifications at this level may only be made by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

F. Cash and Investments

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 fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. 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, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$26,840 and \$3,100 was credited to other District funds.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

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

On fund financial statements, inventories of 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 when purchased.

H. 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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for the acquisition of textbooks and instructional materials.

I. 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 changed its capitalization threshold from \$300 to \$1,000 and it changed its capital asset policy to exclude lots of assets. 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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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 not reported.

L. 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. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

M. Net Assets

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

N. Prepaid Items

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

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 encumbrances, inventory, prepaid items, property taxes, and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

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.

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 in the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF
FUND BALANCE**

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

For fiscal year 2004, the District has increased the threshold for capitalization of capital assets from \$300 to \$1,000. In addition, the capitalization policy was changed to no longer capitalize lots of assets. Only individualized assets valued above \$1,000 are capitalized. See Note 9.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2003	\$ 2,075,003	\$ 580,682	\$ 2,655,685
GASB Statement 34 Adjustment			
Change in Fund Structure		45,277	45,277
Interpretation 6 Adjustments:			
Compensated Absences Payable	23,645	18,220	41,865
Adjusted Fund Balance	<u>\$ 2,098,648</u>	<u>\$ 644,179</u>	<u>2,742,827</u>
GASB 34 Adjustments:			
Deferred Revenue			39,750
Capital Assets			11,534,464
Long-Term Liabilities			(3,469,992)
<i>Governmental Activities Net Assets at June 30, 2003</i>			<u>\$ 10,847,049</u>

	Business-Type Activity
The restatement of the business type activity:	
Fund Balance at June 30, 2003	\$ 228,921
GASB Statement No. 34 Adjustment:	
Changes in Fund Structure	228,921
<i>Business Activities Adjusted Net Assets at June 30, 2003</i>	<u>\$ -</u>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

4. 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	\$ (419,939)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	460,724
Accrued FY 2004, Not Yet Received in Cash	(473,899)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(699,787)
Accrued FY 2004, Not Yet Paid in Cash	816,685
Advances Net	(118,927)
Encumbrances Outstanding at Year End (Budget Basis)	(147,913)
<i>Budget Basis</i>	\$ (583,056)

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

Interim 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.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio) and,
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

At fiscal year end, the District had \$200 in undeposited cash on hand, which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$231,717 and the bank balance was \$446,840. Of the bank balance:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

1. \$242,621 was covered by Federal Depository Insurance; and
2. \$204,219 was collateralized by securities specifically pledged by the financial institution in the name of the District.

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio	<u>\$ 2,554,472</u>	<u>\$ 2,554,472</u>

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

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

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Cash and Cash Equivalents	
	<u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 2,786,389	\$ -
Cash on Hand	(200)	-
Investments:		
STAR Ohio	<u>(2,554,472)</u>	<u>2,554,472</u>
<i>GASB Statement 3</i>	<u>\$ 231,717</u>	<u>\$ 2,554,472</u>

6. 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 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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.

The District receives property taxes from Defiance and Williams Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$236,679 in the General Fund, \$5,025 in the Special Revenue Fund, and \$22,701 in the Debt Service Fund. The amount available as an advance at June 30, 2003, was \$191,412 in the General Fund, \$3,000 in the Special Revenue Fund, \$15,800 in the Debt Service Fund, and \$3,620 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 73,492,940	83%	\$ 75,238,280	84%
Industrial/Commercial	2,258,300	3%	2,435,080	3%
Public Utility	10,760,080	12%	10,098,330	11%
Tangible Personal	2,174,560	2%	1,939,126	2%
Total Assessed Value	<u>\$ 88,685,880</u>	<u>100%</u>	<u>\$ 89,710,816</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 33.05</u>		<u>\$ 33.05</u>	

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

7. INCOME TAX

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2004, consisted of property, income tax, accounts (rent and student fees), intergovernmental, and accrued interest. 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:

	<u>Amount</u>
Governmental Activities	
Food Service	\$ 9,316
Miscellaneous State	2,100
Federal Emergency Repair Program Grant	120,148
Miscellaneous Federal	<u>467</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$ 132,031</u></u>

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 204,310	\$ -	\$ -	\$ 204,310
<i>Total Nondepreciable Capital Assets</i>	<u>204,310</u>	<u>-</u>	<u>-</u>	<u>204,310</u>
Depreciable Capital Assets				
Land Improvements	1,925,127	3,708	2,100	1,926,735
Buildings and Building Improvements	11,269,526	-	-	11,269,526
Furniture, Fixtures, and Equipment	1,314,971	85,297	169,981	1,230,287
Vehicles	1,265,122	110,192	74,860	1,300,454
<i>Total Depreciable Capital Assets</i>	<u>15,774,746</u>	<u>199,197</u>	<u>246,941</u>	<u>15,727,002</u>
Less Accumulated Depreciation				
Land Improvements	83,335	29,543	-	112,878
Buildings and Building Improvements	2,745,784	339,336	-	3,085,120
Furniture, Fixtures, and Equipment	690,406	114,908	163,953	641,361
Vehicles	723,915	108,055	69,342	762,628
<i>Total Accumulated Depreciation</i>	<u>4,243,440</u>	<u>591,842</u>	<u>233,295</u>	<u>4,601,987</u>
Depreciable Capital Assets, Net	<u>11,531,306</u>	<u>(392,645)</u>	<u>13,646</u>	<u>11,125,015</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 11,735,616</u>	<u>\$ (392,645)</u>	<u>\$ 13,646</u>	<u>\$ 11,329,325</u>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 75,076
Special	3,355
Vocational	1,994
Support Services:	
Pupil	7,000
Instructional Staff	1,032
Administration	7,004
Fiscal	2,154
Business	4,788
Operation and Maintenance of Plant	11,258
Pupil Transportation	105,325
Central	287
Non-Instructional Services	18,460
Extracurricular	14,628
Capital Outlay	339,481
<i>Total Depreciation Expense</i>	<u><u>\$ 591,842</u></u>

The District restated Capital Assets at the beginning of the year due to a change in the capitalization policy as follows:

Balance at June 30, 2003	\$ 17,373,988
Restatement	<u>(1,596,084)</u>
Balance, Restated	<u><u>\$ 15,777,904</u></u>

10. RESTRICTED ASSETS

The following amount, which is reflected on the statement of net assets, is restricted for textbook set-asides.

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 19,096

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

11. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are ninety percent co-insured.

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. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (see Note 18). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The District paid \$ 970 in premiums during the 2004 fiscal year.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

environments. Each participant must pay its premium, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

12. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$114,237, \$59,769, and \$93,556, respectively; 57 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$49,281.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides 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 for STRS. The report may be obtained by writing to the State

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$582,916, \$429,784, and \$388,065, respectively; 86 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$80,459.

13. 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.

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, 2003, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 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. A safety net is in place for retirees whose household income falls below federal poverty level. Premiums are reduced by 50 percent for those who apply.

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, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$24,500. 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. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

For fiscal year 2004, the amount to fund health care benefits, including the surcharge, was \$78,166.

14. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees are entitled to vacation ranging from 10 to 20 days upon hiring. Employees are permitted to carry over vacation leave earned for two succeeding years.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rated basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-third of the accumulated sick leave to a maximum of 57 days, except that those employees who elect to retire at the earliest permissible retirement date shall be paid one-third of the accumulated sick leave to a maximum of 101 days.

15. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government-wide Financial Statements:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Balance at 06/30/03	Additions	Deductions	Balance at 06/30/04	Due Within One Year
General Obligation Bonds	\$ 2,295,000	\$ -	\$ 75,000	\$ 2,220,000	\$ 80,000
General Obligation Capital Appreciation Bonds	89,241	15,890	-	105,131	-
Employee Benefit Obligations	1,022,618	861,104	1,022,618	861,104	-
SERS and SERS Surcharge	63,133	-	63,133	-	-
<i>Total</i>	<u>\$ 3,469,992</u>	<u>\$ 876,994</u>	<u>\$ 1,160,751</u>	<u>\$ 3,186,235</u>	<u>\$ 80,000</u>

The scheduled payments of principal and interest on the general obligation bonds as of June 30, 2004 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 80,000	\$ 121,023	\$ 201,023
2006	85,000	117,020	202,020
2007	90,000	112,687	202,687
2008	95,000	108,039	203,039
2009	100,000	103,090	203,090
Thereafter	1,875,131	785,355	2,660,486
<i>Total</i>	<u>\$ 2,325,131</u>	<u>\$ 1,347,214</u>	<u>\$ 3,672,345</u>

The District passed a levy issue on the November 1999 ballot for the issuance of bond to cover its share of construction on the new elementary building. The bonds consisted of \$2,440,000 of the Current Interest General Obligation bonds (\$885,000 were issued as serial bonds and \$1,550,000 were issued as term bonds) and \$41,571 of Capital Appreciation General Obligation Bonds. Bonds were issued in February 2001 for a twenty-three year period with final maturity on December 1, 2022.

The Current Interest Bonds shall bear interest at the rates per year and will mature in the principal amounts and on the Principal Payment Dates as follows:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

<u>Principal Payment Due</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
December 1, 2000	\$ 10,000	4.30%
December 1, 2001	65,000	4.40%
December 1, 2002	70,000	4.60%
December 1, 2003	75,000	4.70%
December 1, 2004	80,000	4.80%
December 1, 2005	85,000	4.90%
December 1, 2006	90,000	5.00%
December 1, 2007	95,000	5.05%
December 1, 2008	100,000	5.10%
December 1, 2009	105,000	5.15%
December 1, 2010	110,000	5.20%

The Term Bonds mature on December 1, 2022, bear interest at the rate of 5.75 percent per year, and are subject to mandatory sinking fund redemption and payable to Mandatory Sinking Fund Redemption Requirements in the principal amounts and on the Principal Dates (each a Mandatory Sinking Fund Requirement.)

<u>Principal Payment Due</u>	<u>Principal Amount</u>
December 1, 2013	\$ 125,000
December 1, 2014	130,000
December 1, 2015	135,000
December 1, 2016	145,000
December 1, 2017	155,000
December 1, 2018	160,000
December 1, 2019	165,000
December 1, 2020	175,000
December 1, 2021	185,000

The balance of the principle of the Term Bonds (\$180,000) is payable at the stated maturity on December 1, 2022.

The Current Interest Bonds are subject to redemption prior to maturity as provided in the Bonds Resolution and above, except that the Bonds maturing on or after December 1, 2010, either in whole at any time or in part on any Interest Payment Date, in integral multiples of

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

\$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

Redemption Date (Dates inclusive)	Redemption Prices
December 1, 2010 through November 30, 2011	100%
December 1, 2011 and thereafter	100%

The Capital Appreciation Bonds are dated the date of their issuance (April 11, 2000), issued in the principal amounts to mature and be payable as to both principal and interest in the Maturity Amounts on the Principal Payment Dates, and bear interest at the compounding rates per year as follows:

Principal Payment Date	Aggregate Principal Amount	Maturity Amount	Compounding Rate
December 1, 2011	\$ 22,286	\$ 120,000	15%
December 1, 2012	\$ 19,285	\$ 120,000	15%

Based on the actual interest rates to be borne by the Current Interest Bonds and the compounding interest rates to be borne by the Capital Appreciation Bonds, the principal amount of the Current Interest Bonds to mature or be payable pursuant to mandatory sinking fund redemption as specified above (i) the total principal and interest payments on the Bonds in any fiscal year in which the principal is payable is not more than three times the amount of those payments on the Bonds in any other such fiscal year and (ii) the weighted average of the rates of interest per year to be borne by the Bonds is not in excess of 7 percent.

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	\$ 11,853	\$ -
Current Year Set-aside Requirement	154,875	154,875
Current Year Offsets	-	(53,259)
Qualifying Disbursements	(147,632)	(101,616)
Cash Balance Carried Forward to FY 2005	\$ 19,096	\$ -
Balance at June 30, 2004	\$ 19,096	\$ -

17. JOINTLY GOVERNED ORGANIZATIONS

A. 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, 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. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$33,632. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,250. To obtain financial information write to the Northern Buckeye

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

18. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$936,480. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$970 to the WCGRP to cover the costs of administering the program.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

19. 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.

20. 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, 2004.

B. Litigation

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

21. CONTRACTUAL COMMITMENTS

As of June 30, 2004, the District had the following contractual purchase commitments:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

<u>Company</u>	<u>Amount Remaining</u>
Mel Lanzer	\$ 39,478
Beilharz Architects	15,240
Stark's Inc.	120,800
Precision Sports Surfaces	95,154
<i>Total</i>	<u><u>\$ 270,672</u></u>



**Auditor of State
Betty Montgomery**

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

Central Local School District
Defiance County
06289 U.S. Highway 127
Sherwood, Ohio 43556-9735

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2005. We noted that the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement and Management Letter Discussion and Analysis for State and Local Governments* and modified its capitalization policy for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 21, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to management of the District in a separate letter dated January 21, 2005.

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



Betty Montgomery
Auditor of State

January 21, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE 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
FEBRUARY 10, 2005**