



**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	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison - General Fund	15
Statement of Fiduciary Net Assets - Fiduciary Funds	16
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	17
Notes to the Basic Financial Statements	19
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 31, 2006

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- In total, net assets decreased \$361,823.
- General revenues accounted for \$8,888,658, or 89 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$1,149,488, or 11 percent of total revenues of \$10,038,146.
- The District's major fund is the General Fund. The General Fund had \$8,614,294 in revenues and other financing sources and \$8,300,920 in expenditures. The General Fund's balance increased \$313,374 from the prior fiscal year.

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.

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 2005. 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

(Continued)

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 and income tax 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 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

(Continued)

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005.

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$5,472,302	\$5,668,926
Capital Assets, Net	11,034,672	11,329,325
Total Assets	<u>16,506,974</u>	<u>16,998,251</u>
<u>Liabilities:</u>		
Current and Other Liabilities	2,955,086	3,117,556
Long-Term Liabilities	3,219,251	3,186,235
Total Liabilities	<u>6,174,337</u>	<u>6,303,791</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	8,773,651	9,004,194
Restricted	515,588	857,737
Unrestricted	1,043,398	832,529
Total	<u>\$10,332,637</u>	<u>\$10,694,460</u>

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

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$512,444	\$461,880
Operating Grants, Contributions and Interest	637,044	390,979
Capital Grants and Contributions		207,320
Total Program Revenues	<u>1,149,488</u>	<u>1,060,179</u>
General Revenues:		
Property Taxes	2,501,284	2,465,109
Income Taxes	707,448	686,699
Grants and Entitlements	5,532,824	5,325,008
Gifts and Donations	38,768	41,351
Investment Earnings	63,687	29,940
Miscellaneous	42,940	21,877
Proceeds from Sale of Capital Assets	1,707	
Total General Revenues	<u>8,888,658</u>	<u>8,569,984</u>
Total Revenues	<u>10,038,146</u>	<u>9,630,163</u>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

(Continued)

<u>Expenses:</u>		
Instruction	\$5,489,449	\$5,041,878
Support Services:		
Pupils	377,838	324,818
Instructional Staff	167,606	125,683
Board of Education	29,012	31,884
Administration	890,325	1,181,195
Fiscal	227,176	226,013
Business	4,787	50,732
Operation and Maintenance of Plant	726,677	760,914
Pupil Transportation	748,472	703,760
Central	160,046	119,931
Non-Instructional	468,467	441,116
Extracurricular Activities	447,687	422,615
Capital Outlay	525,514	211,618
Interest and Fiscal Charges	136,913	140,595
Total Expenses	<u>10,399,969</u>	<u>9,782,752</u>
Decrease in Net Assets	<u>(\$361,823)</u>	<u>(\$152,589)</u>

Expenses increased due to an increase in wages and benefits as well as an increase in depreciation expense.

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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

(Continued)

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Instruction	\$5,489,449	\$4,994,022	\$5,041,878	\$4,576,266
Support Services:				
Pupils	377,838	370,307	324,818	324,818
Instructional Staff	167,606	160,368	125,683	113,329
Board of Education	29,012	29,012	31,884	31,884
Administration	890,325	848,029	1,181,195	1,174,909
Fiscal	227,176	227,176	226,013	226,013
Business	4,787	4,787	50,732	50,732
Operation and Maintenance of Plant	726,677	726,677	760,914	760,914
Pupil Transportation	748,472	748,472	703,760	703,760
Central	160,046	146,100	119,931	119,931
Non-Instructional	468,467	34,547	441,116	154,792
Extracurricular Activities	447,687	298,557	422,615	304,657
Capital Outlay	525,514	525,514	211,618	39,973
Interest and Fiscal Charges	136,913	136,913	140,595	140,595
Total Expenses	<u>\$10,399,969</u>	<u>\$9,250,481</u>	<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 90 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 89 percent. The remaining 11 percent are derived from tuition and fees, specific grants, and donations.

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 \$10,156,453 and expenditures of \$10,063,390. The net positive change of \$93,063 in fund balance for the year indicates that the District was able to meet 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 2005, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$10,792,501 while actual expenditures were \$8,741,714. The \$2,050,787 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$11,034,672 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, 2005, the District had \$2,261,021 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 Fund.

At June 30, 2005, the District's overall legal debt margin was \$5,943,755, with an un-voted debt margin of \$91,164.

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 contributing influence on the economy.

The District is currently operating in the second year of the state biennium budget. 38 percent of District revenue sources are from local funds, 57 percent are from state funds, and the remaining 5 percent is from federal funds. The total expenditure per pupil was calculated at \$8,757.

In May 2001, the District passed a five-year emergency levy to generate \$615,000 annually. This three-year emergency levy was renewed in May 2005, for January 1, 2005, through December 31, 2007. 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 Route 127, Sherwood, Ohio 43556-9735.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	2,585,407
Materials and Supplies Inventory		122,455
Accrued Interest Receivable		1,571
Accounts Receivable		1,456
Intergovernmental Receivable		6,823
Prepaid Items		26,246
Taxes Receivable		2,439,105
Income Taxes Receivable		289,239
Non-Depreciable Capital Assets		201,152
Depreciable Capital Assets, net		10,833,520
Total Assets		16,506,974
 LIABILITIES:		
Accounts Payable		2,768
Accrued Wages and Benefits		555,460
Intergovernmental Payable		207,734
Matured Compensated Absences Payable		121,233
Deferred Revenue		2,067,891
Long-Term Liabilities:		
Due Within One Year		85,000
Due in More Than One Year		3,134,251
Total Liabilities		6,174,337
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		8,773,651
Restricted for Debt Service		124,776
Restricted for Capital Outlay		12,352
Restricted for Other Purposes		378,460
Unrestricted		1,043,398
Total Net Assets	\$	10,332,637

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:			
Instruction:			
Regular	\$ 3,835,530	\$ 64,464	\$ 114,232
Special	1,292,798		316,088
Vocational	214,031		643
Other	147,090		
Support Services:			
Pupils	377,838		7,531
Instructional Staff	167,606		7,238
Board of Education	29,012		
Administration	890,325	24,796	17,500
Fiscal	227,176		
Business	4,787		
Operation and Maintenance of Plant	726,677		
Pupil Transportation	748,472		
Central	160,046		13,946
Operation of Non-Instructional Services	468,467	274,054	159,866
Extracurricular Activities	447,687	149,130	
Capital Outlay	525,514		
Debt Service:			
Interest and Fiscal Charges	136,913		
Totals	\$ 10,399,969	\$ 512,444	\$ 637,044
General Revenues:			
Taxes:			
Property Taxes, Levied for General Purposes			2,267,074
Property Taxes, Levied for Debt Service			194,178
Property Taxes, Levied for Other			40,032
Income Taxes			707,448
Grants and Entitlements not Restricted to Specific Programs			5,532,824
Gifts and Donations			38,768
Investment Earnings			63,687
Miscellaneous			42,940
Proceeds from Sale of Capital Assets			1,707
Total General Revenues			8,888,658
Change in Net Assets			(361,823)
Net Assets Beginning of Year			10,694,460
Net Assets End of Year			\$ 10,332,637

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,028,919	\$ 490,220	\$ 2,519,139
Materials and Supplies Inventory	104,265	18,190	122,455
Accrued Interest Receivable	1,571		1,571
Accounts Receivable	45	1,411	1,456
Intergovernmental Receivable		6,823	6,823
Prepaid Items	26,246		26,246
Taxes Receivable	2,210,017	229,088	2,439,105
Income Taxes Receivable	289,239		289,239
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	66,268		66,268
Total Assets	4,726,570	745,732	5,472,302
Liabilities			
Current Liabilities:			
Accounts Payable	2,269	499	2,768
Accrued Wages and Benefits	527,406	28,054	555,460
Intergovernmental Payable	127,947	3,817	131,764
Matured Compensated Absences Payable	121,233		121,233
Deferred Revenue	1,955,632	197,774	2,153,406
	2,734,487	230,144	2,964,631
Fund Balances			
Reserved:			
Reserved for Encumbrances	269,949	19,096	289,045
Reserved for Inventory	104,265	18,190	122,455
Reserved for Prepaid Items	26,246		26,246
Reserved for Property Taxes	304,767	31,314	336,081
Reserved for Textbooks and Instructional Materials	66,268		66,268
Unreserved, Undesignated, Reported in:			
General Fund	1,220,588		1,220,588
Special Revenue Funds		336,174	336,174
Debt Service Funds		98,462	98,462
Capital Projects Funds		12,352	12,352
Total Fund Balances	1,992,083	515,588	2,507,671
Total Liabilities and Fund Balances	\$ 4,726,570	\$ 745,732	\$ 5,472,302

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, 2005**

Total Governmental Fund Balances	\$	2,507,671
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.		11,034,672
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		85,515
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(75,970)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$	(2,261,021)
Compensated Absences Payable		(958,230)
		<u>(3,219,251)</u>
Net Assets of Governmental Activities	\$	<u><u>10,332,637</u></u>

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, 2005**

	General Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property and Other Local Taxes	\$ 2,264,881	\$ 235,433	\$ 2,500,314
Income Tax	706,110		706,110
Intergovernmental	5,559,884	730,599	6,290,483
Interest	56,277	7,410	63,687
Tuition and Fees	45	57,801	57,846
Rent	5,310		5,310
Extracurricular Activities		148,947	148,947
Gifts and Donations	11,501	27,267	38,768
Customer Sales and Services	728	299,613	300,341
Miscellaneous	7,851	35,089	42,940
Total Revenues	8,612,587	1,542,159	10,154,746
EXPENDITURES:			
Current:			
Instruction:			
Regular	3,623,087	138,350	3,761,437
Special	1,070,002	193,870	1,263,872
Vocational	216,370	6,428	222,798
Other	147,090		147,090
Support Services:			
Pupils	239,622	127,845	367,467
Instructional Staff	155,480	7,238	162,718
Board of Education	29,012		29,012
Administration	780,899	72,046	852,945
Fiscal	219,877	5,775	225,652
Operation and Maintenance of Plant	717,985		717,985
Pupil Transportation	654,279		654,279
Central	129,998	29,327	159,325
Operation of Non-Instructional Services		441,619	441,619
Extracurricular Activities	256,426	186,208	442,634
Capital Outlay	60,793	352,741	413,534
Debt Service:			
Principal		80,000	80,000
Interest		121,023	121,023
Total Expenditures	8,300,920	1,762,470	10,063,390
Excess of Revenues Over (Under) Expenditures	311,667	(220,311)	91,356
OTHER FINANCING SOURCES:			
Proceeds from Sale of Fixed Assets	1,707		1,707
Net Change in Fund Balances	313,374	(220,311)	93,063
Fund Balance at Beginning of Year	1,678,709	735,899	2,414,608
Fund Balance at End of Year	\$ 1,992,083	\$ 515,588	\$ 2,507,671

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

Net Change in Fund Balances - Total Governmental Funds \$ 93,063

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	\$ 269,068	
Depreciation	<u>(558,081)</u>	(289,013)

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.

Loss on Disposal of Capital Assets		(5,640)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(120,615)	
Income Taxes	1,338	
Delinquent Property Taxes	<u>970</u>	(118,307)

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

80,000

Interest charges reported on the statement of activities, that do not 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	(8,910)	
Compensated Absences Payable	<u>(97,126)</u>	(106,036)

Change in Net Assets of Governmental Activities	\$	<u><u>(361,823)</u></u>
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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 Budgetary Basis) and Actual Comparison
GENERAL FUND
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,166,000	\$ 2,076,000	\$ 2,196,793	\$ 120,793
Income Tax	670,000	670,000	702,370	32,370
Intergovernmental	5,577,183	5,578,863	5,559,884	(18,979)
Interest	29,000	29,000	55,115	26,115
Tuition and Fees	650	650		(650)
Rent	6,400	6,400	5,310	(1,090)
Gifts and Donations	15,000	15,000	11,501	(3,499)
Customer Sales and Services	1,150	1,150	728	(422)
Miscellaneous	8,650	8,650	8,159	(491)
Total Revenues	<u>8,474,033</u>	<u>8,385,713</u>	<u>8,539,860</u>	<u>154,147</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,864,513	3,937,623	3,719,404	218,219
Special	1,169,517	1,176,088	1,079,206	96,882
Vocational	233,517	272,279	227,323	44,956
Other	173,840	209,956	148,522	61,434
Support Services:				
Pupils	268,165	282,291	250,218	32,073
Instructional Staff	164,894	196,680	156,153	40,527
Board of Education	22,745	36,080	30,811	5,269
Administration	701,312	822,870	786,155	36,715
Fiscal	244,992	251,093	221,905	29,188
Business	52,000	63,806	57,420	6,386
Operation and Maintenance of Plant	891,987	941,780	772,258	169,522
Pupil Transportation	981,394	1,092,181	828,359	263,822
Central	156,629	163,836	128,578	35,258
Operation of Non-Instructional Services	450	450		450
Extracurricular Activities	288,639	319,396	263,797	55,599
Capital Outlay	103,492	764,287	70,226	694,061
Total Expenditures	<u>9,318,086</u>	<u>10,530,696</u>	<u>8,740,335</u>	<u>1,790,361</u>
Excess of Expenditures Over Revenues	<u>(844,053)</u>	<u>(2,144,983)</u>	<u>(200,475)</u>	<u>1,944,508</u>
Other Financing Sources and Uses:				
Transfers In		260,426		(260,426)
Proceeds from Sale of Fixed Assets	2,000	2,000	1,707	(293)
Refund of Prior Year Expenditures	1,500	1,500	1,618	118
Advances In	121,367	121,367	121,367	
Transfers Out	(260,426)	(260,426)		260,426
Refund of Prior Year Receipts		(1,379)	(1,379)	
Other Financing Uses	(1,163,773)			
Total Other Financing Sources and Uses	<u>(1,299,332)</u>	<u>123,488</u>	<u>123,313</u>	<u>(175)</u>
Net Change in Fund Balances	(2,143,385)	(2,021,495)	(77,162)	1,944,333
Fund Balance (Deficit) at Beginning of Year	1,752,214	1,752,214	1,752,214	
Prior Year Encumbrances Appropriated	147,913	147,913	147,913	
Fund Balance (Deficit) at End of Year	<u>\$ (243,258)</u>	<u>\$ (121,368)</u>	<u>\$ 1,822,965</u>	<u>\$ 1,944,333</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ <u>5,221</u>	\$ <u>44,570</u>
Total Assets	<u>5,221</u>	<u>44,570</u>
Liabilities		
Undistributed Monies	<u> </u>	<u>44,570</u>
Total Liabilities	<u> </u>	<u>44,570</u>
Net Assets		
Held in Trust for Scholarships	<u>5,221</u>	<u> </u>
Total Net Assets	<u>\$ <u>5,221</u></u>	<u>\$ <u> </u></u>

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, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>250</u>
Total Additions	<u>250</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>200</u>
Total Deductions	<u>200</u>
Change in Net Assets	50
Net Assets Beginning of Year	<u>5,171</u>
Net Assets End of Year	<u>\$ <u>5,221</u></u>

See Accompanying Notes to the Basic Financial Statements

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**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

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 65 non-certified and 82 certified full-time teaching personnel who provide services to 1,171 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 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 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.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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, and object level for all funds. Any budgetary modifications at this level may only be made by the Board of Education.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 2005, investments were limited to STAR Ohio.

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

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 2005 amounted to \$56,277 which includes \$10,019 from 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 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's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<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.

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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 and instructional materials.

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

P. 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.

Q. 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.

R. 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 2005.

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual comparison 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).

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

3. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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	
GAAP Basis	\$313,374
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	472,513
Accrued FY 2005, Not Yet Received in Cash	(546,619)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(815,299)
Accrued FY 2005, Not Yet Paid in Cash	649,723
Advances Net	121,367
Encumbrances Outstanding at Year End (Budget Basis)	<u>(272,221)</u>
Budget Basis	<u><u>(\$77,162)</u></u>

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

4. DEPOSITS AND INVESTMENTS – (Continued)

3. Written repurchase agreements in the securities listed above provided that the market 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions. An investment must mature within five years from the date of purchase unless matched to a specific obligation 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,559,131 of the District's bank balance of \$1,826,266 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

4. DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2005, the District had \$1,078,098 invested in STAR Ohio.

Credit Risk - STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices beyond the requirements of the state statutes.

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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,635,198	
Investments:		
STAR Ohio	(1,078,098)	\$1,078,098
GASB Statement No. 3	\$1,557,100	\$1,078,098

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

5. PROPERTY TAXES – (Continued)

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. 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 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 Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, 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 2005 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, 2005, was \$304,767 in the General Fund, \$5,000 in the Special Revenue Fund, and \$26,314 in the Bond Retirement Fund. 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 Bond Retirement Fund.

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$75,238,280	84%	\$76,890,510	84%
Industrial/Commercial	2,435,080	3%	2,549,710	3%
Public Utility	10,098,330	11%	9,897,880	11%
Tangible Personal	1,939,126	2%	1,826,074	2%
Total Assessed Value	<u>\$89,710,816</u>	<u>100%</u>	<u>\$91,164,174</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$33.05		\$32.90	

6. 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

7. RECEIVABLES

Receivables at June 30, 2005, 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:

	Amount
Governmental Activities	
Title I	\$6,823
Total Intergovernmental Receivables	\$6,823

8. CAPITAL ASSETS

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

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$204,310		\$(3,158)	\$201,152
Total Nondepreciable Capital Assets	204,310		3,158	201,152
Depreciable Capital Assets				
Land Improvements	1,926,735	\$167,886		2,094,621
Buildings and Building Improvements	11,269,526			11,269,526
Furniture, Fixtures, and Equipment	1,230,287	90,720	(31,318)	1,289,689
Vehicles	1,300,454	10,462	(1,000)	1,309,916
Total Depreciable Capital Assets	15,727,002	269,068	32,318	15,963,752
Less Accumulated Depreciation				
Land Improvements	(112,878)	(71,133)		(184,011)
Buildings and Building Improvements	(3,085,120)	(238,526)		(3,323,646)
Furniture, Fixtures, and Equipment	(641,361)	(143,881)	28,836	(756,406)
Vehicles	(762,628)	(104,541)	1,000	(866,169)
Total Accumulated Depreciation	(4,601,987)	(558,081)	29,836	(5,130,232)
Depreciable Capital Assets, Net	11,125,015	(289,013)	2,482	10,833,520
Governmental Activities Capital Assets, Net	\$11,329,325	(\$289,013)	\$5,640	\$11,034,672

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

8. CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$92,723
Special	3,696
Vocational	2,418
Support Services:	
Pupil	7,099
Instructional Staff	4,042
Administration	7,207
Fiscal	1,871
Business	4,787
Operation and Maintenance of Plant	13,717
Pupil Transportation	101,323
Central	288
Non-Instructional Services	21,410
Extracurricular	17,125
Capital Outlay	<u>280,375</u>
Total Depreciation Expense	<u><u>\$558,081</u></u>

9. RESTRICTED ASSETS

The following amount, which is reflected on the balance sheet, is restricted for textbooks and materials set-asides.

	<u>General Fund</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$66,268

10. 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 fully insured.

During fiscal year 2005, Central Local School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. The District contracts for education general liability, employee benefits liability, employer's liability, stop gap, errors and omissions liability, and employment practices with OSP.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

10. RISK MANAGEMENT – (Continued)

Insurance coverage provided includes the following:

Education General Liability:	
Each Occurrence	\$ 1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability (\$2,500 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	2,000,000
Employment Practices (\$2,500 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000

Settled claims have not exceeded the amount of commercial coverage in any of the past three years, and there has been no significant reduction in the amount of 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 17). 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 \$993 in premiums during the 2005 fiscal year.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

10. RISK MANAGEMENT – (Continued)

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

11. 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 2005, 10.57 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, 2005, 2004, and 2003, were \$146,629, \$114,237, and \$59,769, respectively; 57 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$83,208.

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 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% 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

11. DEFINED PENSION BENEFIT PLANS – (Continued)

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, 2005, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$597,281, \$582,916, and \$429,784, respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$99,168.

12. 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% 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 years ended June 30, 2005, and June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

12. POSTEMPLOYMENT BENEFITS – (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the 2005 fiscal year, District paid \$88,612 to fund health care benefits, including the surcharge.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150% of the estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123.

13. 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 58 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 102 days.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	Balance at 6/30/04	Additions	Deductions	Balance at 6/30/05	Due Within One Year
General Obligation Bonds	\$2,220,000		\$(80,000)	\$2,140,000	\$85,000
General Obligation Capital Appreciation Bonds	105,131	\$15,890		121,021	
Employee Benefit Obligations	861,104	97,126		958,230	
Total	<u>\$3,186,235</u>	<u>\$113,016</u>	<u>\$(80,000)</u>	<u>\$3,219,251</u>	<u>\$85,000</u>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

14. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on the general obligation bonds as of June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2010	105,000	97,836	202,836
2011-2015	486,021	355,954	841,975
2016-2020	760,000	268,812	1,028,812
2021-2023	540,000	46,863	586,863
Total	<u>\$2,261,021</u>	<u>\$1,210,301</u>	<u>\$3,471,322</u>

The District passed a levy issue on the November 1999 ballot for the issuance of bonds to cover its share of construction on the new elementary building. The bonds consisted of \$2,440,000 of Current Interest General Obligation 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, 2023.

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:

<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%

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

14. LONG-TERM OBLIGATIONS – (Continued)

The Term bonds shall be stated to mature on December 1, 2022, shall bear interest at the rate of 5.75% per year, and shall be subject to mandatory sinking fund redemption and payable to Mandatory Sinking Fund Redemption Requirements in the principal amounts and on the principal payment dates (each a Mandatory Sinking Fund Requirement) as follows:

<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 principal of the Term bonds (\$180,000) shall be payable at their stated maturity on December 1, 2022.

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

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

Capital Appreciation bonds shall be dated the date of their issuance (April 11, 2000), shall be issued in the principal amounts, shall mature and be payable as to both principal and interest in the maturity amounts on the principal payment dates, and shall bear interest at the compounding rates per year as follows:

<u>Principal Payment Date</u>	<u>Aggregate Principal Amount</u>	<u>Maturity Amount</u>	<u>Compounding Rate</u>
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%.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

15. 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.

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2004	\$19,096	\$ -
Current Year Set-aside Requirement	159,781	159,781
Current Year Offsets		(60,444)
Qualifying Disbursements	(112,609)	(99,337)
Cash Balance Carried Forward to FY 2006	\$66,268	\$ -
Total Restricted Assets	\$66,268	\$ -

16. 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 \$39,004. 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 (the Council) 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 during this fiscal year were \$3,750. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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 22-900 State Route 34, Archbold, Ohio 43502.

17. 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 \$993,609. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, 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 Section 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 \$993 to the WCGRP to cover the costs of administering the program.

18. 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

19. CONTINGENCIES

A. Grants

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

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

B. Litigation

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 31, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated January 31, 2006, we reported other matters related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Central Local School District
Defiance County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 31, 2006



**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 16, 2006**