



**Auditor of State
Betty Montgomery**

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Archbold Area Local School District
Fulton County
600 Lafayette Street
Archbold, Ohio 43502-1657

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Archbold Area Local School District, Fulton County, Ohio, as of June 30 2004, and the respective changes in financial position, where applicable, 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.

As described in Note 9, during the year ended June 30 2004, the District changed its capitalization policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 4, 2005

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The discussion and analysis of Archbold Area Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- The District retired \$934,714 in general obligation bonds from amounts accumulated in the bond retirement fund.
- In total, net assets decreased \$196,717.
- General revenues accounted for \$12,811,649, or 92 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,072,168 or 8 percent of total revenues of \$13,883,817.
- The District's major funds included the general fund and the bond debt service fund. The general fund had \$10,821,130 in revenues and other financing sources and \$11,348,889 in and expenditures and other financing uses. The general fund's fund balance decreased \$527,759 from the prior fiscal year. The bond retirement fund had \$1,832,771 in revenues and other financing sources and \$1,685,061 in and expenditures and other financing uses. The bond debt service fund's fund balance decreased \$147,710 from the prior fiscal year.
- The revenue generated from the bond retirement fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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 and the bond retirement fund are the only two major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses its governmental activities, which include all its programs and services such as instruction, support services, non-instructional services, and extracurricular activities.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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 General Fund and the Bond Retirement Fund are the District's major governmental funds.

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.

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004 compared to fiscal year 2003.

Table 1
Net Assets
(In Thousands)
Governmental Activities

	2004	2003 (Restated)
Assets:		
Current and Other Assets	\$ 14,693	\$ 14,577
Capital Assets, Net	12,808	13,413
<i>Total Assets</i>	<u>27,501</u>	<u>27,990</u>

(Continued)

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Table 1 (Continued)
Net Assets
(In Thousands)
Governmental Activities

	2004	2003 (Restated)
Liabilities:		
Current and Other Liabilities	8,241	8,667
Long-Term Liabilities	16,784	17,650
<i>Total Liabilities</i>	25,025	26,317
Net Assets:		
Invested in Capital Assets, Net of Related D	(1,241)	(1,127)
Restricted	1,480	1,350
Unrestricted	1,237	1,450
<i>Total</i>	\$ 1,476	\$ 1,673

Total assets decreased by \$489,000 (1.7 percent) primarily due to depreciation of capital assets.

Total liabilities decreased by \$292,000 (1.1 percent) changes occurred in deferred revenues from property taxes which increased \$462,000 and long-term liabilities which decreased by \$867,000.

Total net assets decreased by \$197,000 (11.8 percent). Net assets invested in capital assets and restricted net assets increased by \$114,000 and \$130,000, respectively, due to the retirement of debt issues. Unrestricted net assets decreased by \$213,000 due primarily to the decrease of cash and cash equivalents.

Table 2 reflects the changes in net assets for fiscal year 2004 compared to fiscal year 2003.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Table 2
Change in Net Assets
(In Thousands)
Governmental Activities

	2004	2003 (Restated)
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$ 701	\$ 1,121
Operating Grants, Contributions and Interest	362	306
Capital Grants and Contributions	9	23
<i>Total Program Revenues</i>	1,072	1,450
General Revenues:		
Property Taxes	7,696	7,488
Grants and Entitlements	3,810	3,281
Tax Abatements	1,167	1,249
Interest	65	93
Gifts and Donations		2
Miscellaneous	74	101
<i>Total General Revenues</i>	12,812	12,214
<i>Total Revenues</i>	13,884	13,664
Expenses:		
Instruction	8,105	8,098
Support Services:		
Pupils	499	463
Instructional Staff	328	302
Board of Education	52	41
Administration	841	796
Fiscal	337	325
Operation and Maintenance of Plant	1,327	1,330
Pupil Transportation	520	516
Non-Instructional	569	418
Extracurricular Activities	512	488
Capital Outlay	52	372
Interest and Fiscal Charges	938	987
<i>Total Expenses</i>	14,080	14,136
<i>Change in Net Assets</i>	\$ (196)	\$ (472)

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Program revenues decreased by \$378,000 (26.1 percent) due to a portion of state foundation payments \$361,000 being classified as charges for services instead of grants and entitlements (general revenues). General revenues increased by \$598,000 (4.9 percent). Property tax and grants and entitlements increased by \$737,000 (6.8 percent) due to the receipt of additional state funding and property tax payments.

Total expenses decreased by less than one percent.

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

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services	Net Cost of Services	Total Cost of Services (Restated)	Net Cost of Services (Restated)
	2004	2004	2003	2003
Instruction	\$ 8,105	\$ 7,631	\$ 8,098	\$ 7,363
Support Services:				
Pupils	499	495	463	400
Instructional Staff	328	310	302	283
Board of Education	52	52	41	41
Administration	841	841	796	793
Fiscal	337	337	325	325
Operation and Maintenance of Plan	1,327	1,327	1,330	1,330
Pupil Transportation	520	520	516	516
Non-Instructional	569	251	418	47
Extracurricular Activities	512	254	488	230
Capital Outlay	52	52	372	372
Interest and Fiscal Charges	938	938	987	987
<i>Total Expenses</i>	<u>\$ 14,080</u>	<u>\$ 13,008</u>	<u>\$ 14,136</u>	<u>\$ 12,687</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 94 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 92 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General fund and the Bond Retirement fund. General fund revenues increased less than one percent from 2003. General fund expenditures increased by 1.3 percent from 2003 which can be attributed to increases in salary and related fringe benefits. In 2003, the District refinanced an issuance of general obligation bonds as a result, revenues and expenditures in the Bond Retirement fund decreased by 62 percent and 64 percent, respectively.

The net decrease in the General fund balance for fiscal year 2003 was \$393,068 compared to \$527,759 for fiscal year 2004. This was primarily a result of increases in salary, employee benefits and retirement expenditure amounts during 2004. The net increase in the Bond Retirement fund balance for fiscal year 2003 was \$128,616 compared to \$147,710 for fiscal year 2004. Additional property tax monies were received by the Bond Retirement fund in 2004.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final budgeted revenues and other financing sources were \$10,811,853, above original budget estimates of \$10,857,919. Of this \$46,066 difference, most was due to conservative property and other tax estimates in the original budget.

Final expenditures were budgeted at \$12,184,806 while actual expenditures were \$11,434,534. The \$750,272 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. Actual General Fund revenues and other financing sources were exceeded by expenditures and other financing uses by \$621,925. This was primarily as a result of increases in salary, employee benefit and retirement expenditure amounts. There was no significant change in revenues and other financing sources.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$12,808,100 invested in capital assets (net of accumulated depreciation) for governmental activities, decrease of 4.5 percent from the restated beginning of the year amount of \$13,413,646. This amount was restated by \$207,759 to eliminate items grouped into lots. These items individually did not exceed the District's capitalization threshold. For further information regarding the District's capital assets see, notes to the basic financial statements.

Debt

At June 30, 2004, the District's long-term obligations, which include general obligation bonds payable and compensated absences, were \$16,784,027, down 4.9 percent from the end of fiscal year 2003.

The bonds payable were issued for a twenty-six year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement fund.

At June 30, 2004, the District's overall legal debt margin was \$6,111,557, with an un-voted debt margin of \$244,383.

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. Archbold is a small rural community of 4,290 people in Northwest Ohio. It has a number of small businesses and several industrial manufacturing companies with agriculture being an important part of the economy.

The District is currently operating in the first year of the state biennium budget. According to the 2004 Local District Report Card 68.3 percent of district revenue sources are from local funds, 27.9 percent from state funds and the remaining 3.8 percent is from federal funds. The total expenditure per pupil was calculated at \$8,386, which is a \$2,183 increase from the 1999 report card.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

In 1993, the District passed a 4.8 mill continuing operating levy. This levy provides a continuous source of funds for the financial operations and stability of the District. The District's future finances will be affected by state funding for schools in light of the eleven year old DeRolph court case and the long-term effects of public utility deregulation as well as the reduction of personal property for business inventory.

Due to the passage of HB 95, the District will be experiencing a significant loss of personal tangible property (inventory) value over the next nine years. Nearly \$28,000,000 of taxable value (34 percent of total personal property) will be lost by 2013 equating to an estimated revenue loss of \$1,200,000 by 2013.

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 Jean Stamm, Treasurer, Archbold Area Local School District, 600 Lafayette Street, Archbold, Ohio 43502-1657.

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**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 5,701,750
Materials and Supplies Inventory	31,847
Accounts Receivable	54,082
Intergovernmental Receivable	28,821
Prepaid Items	24,012
Taxes Receivable	8,852,414
Non-Depreciable Capital Assets	743,418
Depreciable Capital Assets, net	12,064,682
<i>Total Assets</i>	<u>27,501,026</u>
 LIABILITIES:	
Accounts Payable	47,130
Accrued Wages and Benefits	1,293,073
Intergovernmental Payable	314,704
Matured Compensated Absences Payable	68,603
Deferred Revenue	7,517,271
Long-Term Liabilities:	
Due Within One Year	910,468
Due in More Than One Year	15,873,569
<i>Total Liabilities</i>	<u>26,024,818</u>
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	(1,241,088)
Restricted for Debt Service	1,313,938
Restricted for Capital Outlay	39,453
Restricted for Other Purposes	126,639
Unrestricted	1,237,266
<i>Total Net Assets</i>	<u>\$ 1,476,208</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	Expenses
Governmental Activities:	
Instruction:	
Regular	\$ 6,807,047
Special	1,027,456
Vocational	217,529
Adult/Continuing	4,400
Other	48,465
Support Services:	
Pupils	499,420
Instructional Staff	327,655
Board of Education	51,626
Administration	840,918
Fiscal	337,264
Operation and Maintenance of Plant	1,327,300
Pupil Transportation	520,114
Operation of Non-Instructional Services	568,553
Extracurricular Activities	512,463
Capital Outlay	52,128
Debt Service:	
Interest and Fiscal Charges	938,196
<i>Totals</i>	\$ 14,080,534

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 124,337	\$ 58,820	\$ 9,000	\$ (6,614,890)
	276,084		(751,372)
	5,786		(217,529)
			1,386
			(48,465)
	4,180		(495,240)
	17,565		(310,090)
			(51,626)
			(840,918)
			(337,264)
			(1,327,300)
317,987			(520,114)
258,409			(250,566)
			(254,054)
			(52,128)
			(938,196)
<u>\$ 700,733</u>	<u>\$ 362,435</u>	<u>\$ 9,000</u>	<u>(13,008,366)</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	5,980,215
Property Taxes, Levied for Debt Service	1,715,859
Grants and Entitlements not Restricted to Specific Programs	3,810,036
Tax Abatements	1,166,925
Investment Earnings	64,963
Miscellaneous	73,651
<i>Total General Revenues</i>	<u>12,811,649</u>
<i>Change in Net Assets</i>	(196,717)
Net Assets Beginning of Year	<u>1,672,925</u>
<i>Net Assets End of Year</i>	<u>\$ 1,476,208</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,355,509	\$ 1,054,873	\$ 256,340	\$ 5,666,722
Materials and Supplies Inventory	17,119		14,728	31,847
Accounts Receivable	54,061		21	54,082
Intergovernmental Receivable			28,821	28,821
Prepaid Items	24,012			24,012
Taxes Receivable	6,913,981	1,938,433		8,852,414
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	35,028			35,028
<i>Total Assets</i>	<u>\$ 11,399,710</u>	<u>\$ 2,993,306</u>	<u>\$ 299,910</u>	<u>\$ 14,692,926</u>
Liabilities				
Accounts Payable	\$ 30,013		\$ 17,117	\$ 47,130
Accrued Wages and Benefits	1,231,026		62,047	1,293,073
Intergovernmental Payable	165,061		7,204	172,265
Matured Compensated Absences Payable	68,603			68,603
Deferred Revenue	5,887,513	\$ 1,698,661	6,785	7,592,959
<i>Total Liabilities</i>	<u>7,382,216</u>	<u>1,698,661</u>	<u>93,153</u>	<u>9,174,030</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	27,116		16,354	43,470
Reserved for Inventory	17,119		14,728	31,847
Reserved for Prepaid Items	24,012			24,012
Reserved for Property Taxes	102,217	38,789		141,006
Reserved for Budget Stabilization	35,028			35,028
Unreserved, Undesignated, Reported in:				
General Fund	3,812,002			3,812,002
Special Revenue Funds			88,772	88,772
Debt Service Funds		1,255,856		1,255,856
Capital Projects Funds			86,903	86,903
<i>Total Fund Balances</i>	<u>4,017,494</u>	<u>1,294,645</u>	<u>206,757</u>	<u>5,518,896</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 11,399,710</u>	<u>\$ 2,993,306</u>	<u>\$ 299,910</u>	<u>\$ 14,692,926</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Total Governmental Fund Balances \$ 5,518,896

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. 12,808,100

Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund. 75,688

Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds. (142,439)

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

General Obligation Bonds Payable (15,882,921)
Compensated Absences Payable (901,116)

(16,784,037)

Net Assets of Governmental Activities

\$ 1,476,208

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Local Taxes	\$ 5,945,613	\$ 1,696,566		\$ 7,642,179
Intergovernmental	3,494,301	136,205	\$ 544,180	4,174,686
Interest	64,788		175	64,963
Tuition and Fees	96,253		18,485	114,738
Rent	9,599			9,599
Extracurricular Activities			258,409	258,409
Customer Sales and Services			317,987	317,987
Tax Abatements	1,166,925			1,166,925
Miscellaneous	42,800		30,000	72,800
<i>Total Revenues</i>	<u>10,820,279</u>	<u>1,832,771</u>	<u>1,169,236</u>	<u>13,822,286</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,269,421		117,854	6,387,275
Special	794,485		178,315	972,800
Vocational	174,038		869	174,907
Adult/Continuing			4,400	4,400
Other	48,465			48,465
Support Services:				
Pupils	412,009		81,980	493,989
Instructional Staff	303,087		18,951	322,038
Board of Education	51,626			51,626
Administration	831,044		2,458	833,502
Fiscal	292,601	38,935		331,536
Operation and Maintenance of Plant	1,409,898			1,409,898
Pupil Transportation	464,453			464,453
Operation of Non-Instructional Services			561,032	561,032
Extracurricular Activities	252,261		269,835	522,096
Capital Outlay	11,001		41,127	52,128
Debt Service:				
Principal		491,570		491,570
Interest		1,154,556		1,154,556
<i>Total Expenditures</i>	<u>11,314,389</u>	<u>1,685,061</u>	<u>1,276,821</u>	<u>14,276,271</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(494,110)</u>	<u>147,710</u>	<u>(107,585)</u>	<u>(453,985)</u>
Other Financing Sources and (Uses):				
Transfers In			34,500	34,500
Proceeds from Sale of Fixed Assets	851			851
Transfers Out	(34,500)			(34,500)
<i>Total Other Financing Sources and Uses</i>	<u>(33,649)</u>		<u>34,500</u>	<u>851</u>
Net Change in Fund Balances	(527,759)	147,710	(73,085)	(453,134)
<i>Fund Balance at Beginning of Year</i>	4,545,253	1,146,935	279,842	5,972,030
<i>Fund Balance at End of Year</i>	<u>\$ 4,017,494</u>	<u>\$ 1,294,645</u>	<u>\$ 206,757</u>	<u>\$ 5,518,896</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ (453,134)

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	288,784	
Depreciation	(889,148)	
	(600,364)	(600,364)

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		(5,182)
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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	6,785	
Delinquent Property Taxes	53,895	
	60,680	60,680

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		934,714
--	--	---------

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.

Capital Appreciation Interest		(226,784)
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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	(65,382)	
Compensated Absences Payable	158,735	
	93,353	93,353

<i>Change in Net Assets of Governmental Activities</i>		\$ (196,717)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property and Other Local Taxes	\$ 5,870,000	\$ 5,968,778	\$ 5,968,778	
Intergovernmental	3,496,588	3,494,301	3,494,301	
Interest	85,000	61,344	62,100	\$ 756
Tuition and Fees	115,271	94,782	94,782	
Rent	8,000	9,599	9,599	
Tax Abatements	1,249,000	1,122,508	1,122,508	
Miscellaneous	34,010	59,498	59,498	
<i>Total Revenues</i>	<u>10,857,869</u>	<u>10,810,810</u>	<u>10,811,566</u>	<u>756</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,443,331	6,437,678	6,242,617	195,061
Special	810,604	906,757	861,396	45,361
Vocational	177,578	183,578	173,079	10,499
Other	48,000	55,000	49,334	5,666
Support Services:				
Pupils	416,690	416,710	406,557	10,153
Instructional Staff	312,530	319,244	305,044	14,200
Board of Education	57,367	58,867	52,269	6,598
Administration	836,191	845,691	822,812	22,879
Fiscal	301,295	308,023	296,680	11,343
Operation and Maintenance of Plant	1,793,475	1,801,905	1,463,365	338,540
Pupil Transportation	516,845	522,653	475,898	46,755
Extracurricular Activities	233,200	240,200	239,982	218
Capital Outlay	37,700	37,700	11,001	26,699
<i>Total Expenditures</i>	<u>11,984,806</u>	<u>12,134,006</u>	<u>11,400,034</u>	<u>733,972</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,126,937)</u>	<u>(1,323,196)</u>	<u>(588,468)</u>	<u>734,728</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets		851	851	
Refund of Prior Year Expenditures	50	192	192	
Transfers Out		(34,500)	(34,500)	
Other Financing Uses	(200,000)	(16,300)		16,300
<i>Total Other Financing Sources and Uses</i>	<u>(199,950)</u>	<u>(49,757)</u>	<u>(33,457)</u>	<u>16,300</u>
<i>Net Change in Fund Balances</i>	<u>(1,326,887)</u>	<u>(1,372,953)</u>	<u>(621,925)</u>	<u>751,028</u>
Fund Balance at Beginning of Year	4,899,549	4,899,549	4,899,549	
Prior Year Encumbrances Appropriated	55,783	55,783	55,783	
<i>Fund Balance at End of Year</i>	<u>\$ 3,628,445</u>	<u>\$ 3,582,379</u>	<u>\$ 4,333,407</u>	<u>\$ 751,028</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	Private Purpose Trust	Agency Fund
Assets		
Equity in Pooled Cash and Cash Equivalents		\$ 47,160
Investments	\$ 48,557	
<i>Total Assets</i>	48,557	47,160
Liabilities		
Undistributed Monies		47,160
<i>Total Liabilities</i>		47,160
Net Assets		
Held in Trust for Scholarships	48,557	
<i>Total Net Assets</i>	\$ 48,557	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 914
<i>Total Additions</i>	<u>914</u>
 Deductions:	
Payments in Accordance with Trust Agreements	<u>750</u>
<i>Total Deductions</i>	<u>750</u>
 Change in Net Assets	
Net Assets Beginning of Year	164
	<u>48,393</u>
<i>Net Assets End of Year</i>	<u><u>\$ 48,557</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District is the 383rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 61 classified employees and 100 certified teaching personnel, who provide services to 1,468 students and other community members. The board oversees the operations of the District's four instructional/support facilities.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations, a related organization, and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Archbold Community Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, the Northern Buckeye Education Council Workers' Compensation

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Fund Financial Statements

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

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

Bond Retirement Fund – The Bond Retirement Fund is used to account for property tax revenues to pay the principal and related interest on the school improvement bonds.

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in 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 reported using the 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. Fiduciary funds also use the accrual basis of

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

accounting. Governmental funds use the modified 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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. Allocation 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 legal level of budgetary control selected by the Board is at the object level within each fund and special cost center. Any budgetary modifications at this level may only be made by the Board of Education.

The certificates 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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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 2004, investments were limited to nonparticipating investment contracts, which are certificates of deposit, reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the following funds in fiscal year 2004, was \$64,788 for the General fund, which includes \$17,090 assigned from other funds, and \$175 for the Permanent Improvement fund and \$914 for the Winzeler Trust fund.

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

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. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, purchased food, and school supplies held for resale and are expensed when used. The cost of inventory items is recorded as an expenditure when purchased.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

H. Capital Assets

General capital 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 capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$3,000. 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. Interest incurred during construction of capital assets is also not capitalized.

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

J. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." In conformity with GASB Statement No. 16, the District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

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 absences liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated paid leave are paid. The noncurrent portion of the liability is not reported.

K. 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.

L. 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,

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

grantors or laws, or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and state and federal grants restricted to expenditure for specific purposes.

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

M. 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 reserves have been established for inventory, prepaid items, property taxes, budget stabilization, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Interfund Transactions

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

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

O. Prepaid Items

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

current asset for prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

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 Preschool Disabilities Grant fund and Special Education Part B IDEA Grant fund (special revenue funds) are pass-through grants 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 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District changed its capital asset policy to exclude groups of items. Individually, these items did not exceed the capitalization threshold. See Note 9.

B. Restatement of Fund Balance

The restatement for the above change had the following effect on net assets as it was previously reported.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

	<u>Net Assets</u>
Amount previously stated, at June 30, 2003	\$ 1,880,684
Capital Asset Policy Change	<u>(207,759)</u>
Restated amount, at July 1, 2003	<u>\$ 1,672,925</u>

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the Lunchroom fund, a special revenue fund, had a deficit fund balance of \$30,341 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit fund balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The fiscal officer did not properly certify all expenditures at the time that the commitment was incurred, contrary to the requirements of the Revised Code. The District will continue to use blanket purchase orders, super blanket purchase orders and “then” and “now” certifications as a means to properly certify its expenditures.

5. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance	General
GAAP Basis	\$ (527,759)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	1,072,008
Accrued FY 2004, Not Yet Received in Cash	(1,080,529)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(1,482,087)
Accrued FY 2004, Not Yet Paid in Cash	1,453,572
Encumbrances Outstanding at Year End (Budget Basis)	(57,130)
<i>Budget Basis</i>	\$ (621,925)

6. DEPOSITS AND INVESTMENTS

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

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

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

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
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(Continued)**

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

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

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

Investments in stripped principal or interest obligations, reverse purchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years

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from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand

At year-end, the District had \$125 in undeposited cash on hand, which is included on the balance sheet of the District as part of “equity in pooled cash and cash equivalents.”

Deposits

At year-end, the carrying amount of the District's deposits was \$5,797,342 and the bank balance was \$5,858,712. Of the bank balance, \$259,292 was covered by Federal Depository Insurance and \$5,599,420 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$ 5,748,910	\$ 48,557
Certificate of Deposit	48,557	(48,557)
Cash on Hand	(125)	-
GASB Statement 3	\$ 5,797,342	\$ -

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

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

The amount available as an advance at June 30, 2004, was \$102,217 in the General Fund, and \$38,789 in the Debt Service Fund. The amount available as an advance at June 30, 2003, was \$317,442 in the General Fund and \$115,544 in the Debt Service Fund.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 102,341,330	42%	\$ 105,012,040	43%
Industrial/Commercial	49,366,680	20%	55,961,310	23%
Public Utility	9,200,090	4%	9,163,350	4%
Tangible Personal	81,927,210	34%	74,246,390	30%
Total Assessed Value	\$ 242,835,310	100%	\$ 244,383,090	100%
Tax rate per \$1,000 of assessed valuation	\$ 48.25		\$ 48.25	

8. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (tax abatements, interest, tuition and fees and miscellaneous); intergovernmental receivables arising from grants; property taxes; All receivables are considered collectible in full and within one year

A summary of the principal items of accounts and intergovernmental receivables follows:

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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June 30, 2004
(Continued)**

	Amount
Accounts Receivable:	
General Fund	
Tax abatements	\$ 44,417
Interest	4,618
Tuition and fees	4,271
Miscellaneous	755
	54,061
All Other Governmental Funds	
Extracurricular activities:	
Public School Support Fund	21
<i>Total Accounts Receivable</i>	54,082
Intergovernmental Receivable:	
All Other Governmental Funds	
Federal grant monies:	
Food Service Fund	10,164
Title I Fund	9,469
State grant monies:	
Summer Invention Fund	9,188
<i>Total Intergovernmental Receivable</i>	\$ 28,821

9. CAPITAL ASSETS

- A.** The capital asset balances of the governmental activities have been restated to exclude groups of items which individually did not exceed the District's capitalization threshold.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 726,418	\$ -	\$ 726,418
<i>Total capital assets, not being depreciated</i>	<u>726,418</u>	<u>-</u>	<u>726,418</u>
Capital assets, being depreciated:			
Land improvements	120,752	-	120,752
Buildings and improvements	21,806,297	-	21,806,297
Furniture and equipment	1,298,778	(270,083)	1,028,695
Vehicles	904,806	-	904,806
Textbooks	255,058	(255,058)	-
<i>Total capital assets, being depreciated</i>	<u>24,385,691</u>	<u>(525,141)</u>	<u>23,860,550</u>
Less: accumulated depreciation:			
Land improvements	3,389	29,897	33,286
Buildings and improvements	9,650,531	-	9,650,531
Furniture and equipment	951,364	(180,393)	770,971
Vehicles	718,534	-	718,534
Textbooks	166,886	(166,886)	-
<i>Total Accumulated Depreciation</i>	<u>11,490,704</u>	<u>(317,382)</u>	<u>11,173,322</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 13,621,405</u>	<u>\$ (207,759)</u>	<u>\$ 13,413,646</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 726,418	\$ 17,000	\$ -	\$ 743,418
<i>Total Nondepreciable Capital Assets</i>	<u>726,418</u>	<u>17,000</u>	<u>-</u>	<u>743,418</u>
Depreciable Capital Assets				
Land Improvements	120,752	16,274	-	137,026
Buildings and Building Improvements	21,806,297	209,247	-	22,015,544
Furniture, Fixtures, and Equipment	1,028,695	40,544	4,031	1,065,208
Vehicles	904,806	5,719	5,070	905,455
<i>Total Depreciable Capital Assets</i>	<u>23,860,550</u>	<u>271,784</u>	<u>9,101</u>	<u>24,123,233</u>
Less Accumulated Depreciation				
Land Improvements	33,286	19,208	-	52,494
Buildings and Building Improvements	9,650,531	763,163	-	10,413,694
Furniture, Fixtures, and Equipment	770,971	58,214	3,919	825,266
Vehicles	718,534	48,563	-	767,097
<i>Total Accumulated Depreciation</i>	<u>11,173,322</u>	<u>889,148</u>	<u>3,919</u>	<u>12,058,551</u>
<i>Depreciable Capital Assets, Net</i>	<u>12,687,228</u>	<u>(617,364)</u>	<u>5,182</u>	<u>12,064,682</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 13,413,646</u>	<u>\$ (600,364)</u>	<u>\$ 5,182</u>	<u>\$ 12,808,100</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

C. Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 671,192
Special	54,912
Vocational	40,243
Support Services:	
Instructional Staff	7,266
Fiscal	1,080
Operation and Maintenance of Plant	65,940
Pupil Transportation	33,800
Operation of Non-Instructional Services	5,410
Extracurricular	9,305
<i>Total Depreciation Expense</i>	<u><u>\$ 889,148</u></u>

10. RISK MANAGEMENT

A. Property and Liability

The District maintains comprehensive insurance coverage with private carriers for real property and building contents. Real property contents are fully insured.

The District participates in the Ohio School Plan (Plan), an insurance purchasing pool (See Note 17). The District maintains liability and vehicle insurance with the Plan. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant. Vehicle policies include liability coverage for bodily injury and property damage.

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 districts

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (See Note 17). The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, vision, 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 districts is calculated as one experience and a common premium rate is applied to all 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.

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 premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

11. PENSION AND RETIREMENT 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. SERS 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 School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2004, 9.09 percent was the portion 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$121,388, \$99,500, and \$71,015 respectively; 53 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$56,488.

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 43215-3371 or by calling (614) 227-4090.

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

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The School 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, 2004, 2003, and 2002 were \$850,148, \$822,054, and \$595,787, respectively; 87 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$109,475.

12. EARLY RETIREMENT INCENTIVE

Under the current negotiated agreement for certified employees, a teacher is eligible to receive double severance payment if he/she chooses to retire at either of the following two times, (1) 25 years of service credit and at least 55 years old; or (2) 30 years of service credit at any age. The option is only offered at those times. Teachers not choosing to exercise this option will receive the regular severance payment.

13. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. This amount equaled \$65,396 for fiscal year 2004. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The District paid \$93,902, including the surcharge, to fund health care in fiscal year 2004.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deductions. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

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**Notes to the Basic Financial Statements
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(Continued)**

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

14. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 Days. Employees with less than one year of service earn no vacation. Certain employees are permitted to carry over vacation leave if approved by the Superintendent.

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 rata 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-fourth of the accumulated sick leave to a maximum of 51.25 days.

At June 30, 2004 the current amount of unpaid compensated absences in all funds was \$21,255, and the long-term amount was \$901,116.

15. LONG-TERM OBLIGATIONS

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

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**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

	Balance at 06/30/03	Additions	Deductions	Balance at 06/30/04	Due Within One Year
School facilities construction and improvement bonds					
Series 1992:					
Capital appreciation bonds	\$ 1,811,860	\$ 146,081	\$ 540,000	\$ 1,417,941	\$ 502,526
<i>Total Series 1992</i>	<u>1,811,860</u>	<u>146,081</u>	<u>540,000</u>	<u>1,417,941</u>	<u>502,526</u>
Series 1996:					
Current interest bonds	7,680,000		315,000	7,365,000	
Capital appreciation bonds	772,575	65,299		837,874	301,387
<i>Total Series 1996</i>	<u>8,452,575</u>	<u>65,299</u>	<u>315,000</u>	<u>8,202,874</u>	<u>301,387</u>
Series 2001:					
Current interest bonds	3,085,000		80,000	3,005,000	45,000
Capital appreciation bonds	196,416	25,709		222,125	
<i>Total Series 2001</i>	<u>3,281,416</u>	<u>25,709</u>	<u>80,000</u>	<u>3,227,125</u>	<u>45,000</u>
Series 2002:					
Current interest bonds	2,610,000		40,000	2,570,000	40,000
Capital appreciation bonds	435,000	29,981		464,981	
<i>Total Series 2002</i>	<u>3,045,000</u>	<u>29,981</u>	<u>40,000</u>	<u>3,034,981</u>	<u>40,000</u>
<i>Total General obligation bonds</i>	<u>16,590,851</u>	<u>267,070</u>	<u>975,000</u>	<u>15,882,921</u>	<u>888,913</u>
Compensated absences payable	1,059,851		158,735	901,116	21,555
<i>Total</i>	<u>\$ 17,650,702</u>	<u>\$ 267,070</u>	<u>\$ 1,133,735</u>	<u>\$ 16,784,037</u>	<u>\$ 910,468</u>

School Improvement Replacement Bonds – 1992

Proceeds from the outstanding bonds were used for the purpose of advance refunding a portion of the school building construction and improvement bonds, dated November 1, 1998. The bonds were issued on August 1, 1992. The bonds consisted of \$5,850,000 in current interest bonds (\$2,805,000 issued as serial bonds and \$3,045,000 issued as term bonds) and \$204,976 in capital appreciation bonds. All current interest serial bonds had been retired as December 1, 2002. The term bonds were refunded in advance on December 1, 2002 with replacement bonds issued on November 26, 2002.

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

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Maturity Date	Original Principal Amount	Accreted Value at Maturity
2004	\$ 52,845	\$ 540,000
2005	49,720	545,000
2006	45,841	540,000

The value of the capital appreciation bonds at June 30, 2004 was \$1,417,941. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$1,269,535 has been included in the value. The bonds are being retired through the Bond Retirement debt service fund.

School Facilities Construction and Improvement Bonds – 1996

Proceeds from the outstanding bonds were used for the purpose of renovating, repairing, and improving existing school buildings and facilities, including improving access for the disabled, and construction of an elementary school. These bonds were issued on June 26, 1996. The bonds consisted of \$9,010,000 in current interest bonds (\$3,450,000 issued as serial bonds and \$5,560,000 issued as term bonds) and \$380,782 in capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

Maturity Date	Principal Amount	Interest Rate
2007	\$ 325,000	5.35%
2008	340,000	5.45%
2009	360,000	5.55%
2010	380,000	5.65%
2011	400,000	5.75%

The term bonds, which mature on December 1, 2016, have interest rates of 5.9 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

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(Continued)**

<u>Year</u>	<u>Principal Amount to be</u>
2012	\$ 425,000
2013	450,000
2014	475,000
2015	505,000
2016	530,000
2017	565,000

The term bonds, which mature on December 1, 2021, have interest rates of 6 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

<u>Year</u>	<u>Principal Amount to be</u>
2017	\$ 565,000
2018	595,000
2019	635,000
2020	670,000
2021	710,000

The current interest bonds maturing on December 1, 2007 are subject to redemption at the option of the District, either in whole on any date or in part on any interest payment date on or after December 1, 2006, at the redemption prices equal to the following 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, 2006 through November 30, 2007	102%
December 1, 2007 through November 30, 2008	101%
December 1, 2008 and thereafter	100%

When partial redemption is authorized, the current interest bonds or portions thereof will be selected by lot within a maturity in such manner as the paying agent and registrar may

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

determine, provided however, that the portion of any current interest bond so selected will be in the amount of \$5,000 or any integral multiple.

The capital appreciation bonds were issued in the aggregate original principal amount of \$380,782 and mature on December 1 and have the original principal amounts and mature with the accreted values at maturity, as follows:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>
2004	\$ 136,094	\$ 325,000
2005	126,106	325,000
2006	118,582	325,000

The value of the capital appreciation bonds reported at June 30, 2004 was \$837,874. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$457,092 has been included in the value. The bonds are being retired through the Bond Retirement debt service fund.

School Facilities Construction and Improvement Bonds – 2001

Proceeds from the outstanding bonds were used for the purpose of constructing additions to and renovating and improving existing school buildings and facilities at the high school. These bonds were issued on March 22, 2001. The bonds consisted of \$3,155,000 in current interest bonds (\$475,000 issued as serial bonds and \$2,680,000 issued as term bonds) and \$145,000 in capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2004	\$ 45,000	3.70%
2005	60,000	3.80%
2006	100,000	3.90%
2007	120,000	4.00%

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

The term bonds which mature on December 1, 2012 have interest rates of 4.4 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the aggregate principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2011	\$ 125,000
2012	135,000

The term bonds which mature on December 1, 2014 have interest rates of 4.6 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the aggregate principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2013	\$ 140,000
2014	145,000

The term bonds which mature on December 1, 2016 have interest rates of 4.75 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2015	\$ 150,000
2016	160,000

The term bonds which mature on December 1, 2018 have interest rates of 4.85 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2017	\$ 165,000
2018	175,000

The term bonds which mature on December 1, 2020 have interest rates of 5 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2019	\$ 185,000
2020	190,000

The term bonds which mature on December 1, 2025 have interest rates of 5.125 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2021	\$ 200,000
2022	210,000
2023	220,000
2024	235,000
2025	245,000

The current interest bonds maturing on or after December 1, 2011 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine on any interest payment date on or after June 1, 2011, at 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption. When partial redemption is authorized, the current interest bonds or portions thereof will be selected by lot within a maturity in such manner as the bond registrar may determine, provided,

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

however, that the portion of any such bond so selected will be in the amount of \$5,000 or any integral multiple.

The capital appreciation bonds were issued in the aggregate original principal amount of \$145,000 and mature on December 1 in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

Maturity Date	Original Principal Amount	Accreted Value at Maturity
2008	\$ 50,000	\$ 75,000
2009	50,000	75,000
2010	45,000	80,000

The value of the capital appreciation bonds reported at June 30, 2004 was \$222,125. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$77,125 has been included in the value. The bonds are being retired through the Bond Retirement debt service fund.

School Improvement Replacement Bonds – 2002

Proceeds from the outstanding bonds were used for the purpose of refunding a portion of general obligation refunding bonds, dated August 1, 1992, which were issued for the purpose of advance refunding a portion of the school building construction and improvement bonds dated November 1, 1998. The bonds were issued on November 26, 2002. The bonds consisted of \$2,610,000 in current interest serial bonds and \$435,000 in capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Maturity Date	Principal Amount	Interest Rate
2004	\$ 40,000	2.00%
2005	40,000	2.00%
2006	40,000	2.35%
2008	585,000	3.00%
2009	600,000	3.15%
2010	625,000	3.40%
2011	640,000	4.00%

These bonds are not subject to redemption prior to the stated maturity.

The capital appreciation bonds were issued in the aggregate original principal amount of \$435,000 and mature on December 1, 2007 with an accreted values of \$585,000. The value of the capital appreciation bonds reported at June 30, 2004 was \$464,981. The annual accretion of interest is based on the straight-line method. The bonds are being retired through the Bond Retirement debt service fund.

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$ 888,913	\$ 289,742	\$ 1,178,655
2006	851,159	339,724	1,190,883
2007	840,743	381,180	1,221,923
2008	909,981	760,033	1,670,014
2009	1,003,125	526,330	1,529,455
2010-2014	4,424,000	2,284,535	6,708,535
2015-2019	3,465,000	1,498,093	4,963,093
2020-2024	3,020,000	441,756	3,461,756
2025-2026	480,000	24,856	504,856
Total	\$ 15,882,921	\$ 6,546,249	\$ 22,429,170

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

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 districts within the boundaries of Defiance, Fulton, Henry, Lucas, Wood, 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 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 \$193,475. Financial information can be obtained from the Northern Buckeye Education Council, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities 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 educational 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 during the fiscal year were \$250. To obtain financial information write to the Northern Buckeye Education Council, 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village districts, five local districts, and five city districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during the fiscal year were \$425. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

17. RELATED ORGANIZATION

Archbold Community Library

The Archbold Community Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Archbold Area Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Archbold Community Library, Marilyn Freytag, Clerk/Treasurer, at 205 Stryker Street, Archbold, Ohio 43502.

18. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$1,123,265. Financial information can be obtained from Northern Buckeye Education Council, 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 \$1,049 to the WCGRP to cover the costs of administering the program.

C. Ohio School Plan

The District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members, which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection, and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative, which establishes agreements between the Plan and its members. Total disbursements made by the District to the Plan during the fiscal year were \$51,281. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

19. 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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
June 30, 2004
(Continued)**

be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds is required to be set aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2003	\$ (408,167)	\$ -	\$ 35,028	\$ (373,139)
Current Year Set-aside Requirement	195,556	195,556	-	391,112
Qualifying Disbursements	<u>(326,714)</u>	<u>(316,606)</u>	<u>-</u>	<u>(643,320)</u>
Set-aside Cash Balance as of June 30, 2004	<u>\$ (539,325)</u>	<u>\$ (121,050)</u>	<u>\$ 35,028</u>	<u>\$ (625,347)</u>
Set-aside Amounts Carried Forward to Fiscal Year 2004	<u>\$ (539,325)</u>	<u>\$ -</u>	<u>\$ 35,028</u>	<u>\$ (504,297)</u>
Total Restricted Assets			<u>\$ 35,028</u>	<u>\$ 35,028</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements. The negative capital acquisition balance may not be used to offset future requirements.

20. 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

Notes to the Basic Financial Statements

June 30, 2004

(Continued)

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.

21. INTERFUND TRANSFERS

During the year ended June 30, 2004, the District transferred \$34,500 from the General Fund to Non-major Governmental Funds. These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

22. 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 applicable fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

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

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**Auditor of State
Betty Montgomery**

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

Archbold Area Local School District
Fulton County
600 Lafayette Street
Archbold, Ohio 43502-1657

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Archbold Area Local School District, Fulton County, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 4, 2005, in which we noted the District changed its capital asset policy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 4, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated February 4, 2005.

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



Betty Montgomery
Auditor of State

February 4, 2005

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Findings
June 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

FINDING NUMBER 2004-001
(Continued)

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty - five percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Prior Audit Findings
June 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003 - 001	ORC § 5705.41(D) improper certification of expenditures by the fiscal officer.	No	Not corrected. Repeated as finding number 2004 – 001.



**Auditor of State
Betty Montgomery**

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**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON 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 24, 2005**