



**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 18, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Archbold Area Local School District
Fulton County
600 Lafayette Street
Archbold, Ohio 43502-1656

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 the Archbold Area Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Archbold Area Local School District, Fulton County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

January 4, 2007

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of the financial performance of Archbold Area Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- The District retired \$1,115,000 in general obligation bonds from amounts accumulated in the Bond Retirement Debt Service Fund.
- In total, net assets increased \$1,516,746 primarily due to the receipt of a donated sports stadium.
- General revenues accounted for \$13,766,697, or 81% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$3,195,261 or 19% of total revenues of \$16,961,958.
- The District's major funds included the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$11,455,077 in revenues and \$12,535,252 in and expenditures and other financing uses. The General Fund's balance decreased \$1,080,175 from the prior fiscal year. The Bond Retirement Debt Service Fund had \$2,200,083 in revenues and \$1,642,384 in and expenditures. The Bond Retirement Debt Service Fund's balance increased \$557,699 from the prior fiscal year.
- The revenue generated from the Bond Retirement Debt Service Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Debt Service Fund are the only two major funds.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006. 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 year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The General Fund and the Bond Retirement Debt Service 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to fiscal year 2005.

Table 1		
Net Assets		
Governmental Activities		
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$15,799,027	\$15,134,604
Capital Assets, Net	13,382,813	12,278,450
Total Assets	29,181,840	27,413,054
<u>Liabilities:</u>		
Current and Other Liabilities	10,574,581	9,495,825
Long-Term Liabilities	16,237,356	17,064,072
Total Liabilities	26,811,937	26,559,897
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	(721,605)	(1,496,750)
Restricted	2,462,359	1,917,904
Unrestricted	629,149	432,003
Total	\$2,369,903	\$853,157

Total assets increased by \$1,768,786, less than 6 percent due to the receipt of a donated sports stadium.

Total liabilities remained relatively consistent with an increase of \$252,040, less than 1 percent.

Total net assets increased by \$1,516,746 (177 percent). Net assets invested in capital assets increased by \$775,145 and restricted net assets increased by \$544,455, due to the retirement of debt issues. Unrestricted net assets increased by \$197,416, due primarily to the increase of capital assets.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

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

	<u>2006</u>	<u>2005</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$693,188	\$773,493
Operating Grants, Contributions and Interest	568,917	348,977
Capital Grants and Contributions	1,933,156	13,230
Total Program Revenues	<u>3,195,261</u>	<u>1,135,700</u>
General Revenues:		
Property Taxes	8,650,548	7,904,494
Grants and Entitlements	3,821,628	3,566,157
Payments in Lieu of Taxes	1,021,463	1,194,973
Interest	224,136	126,103
Gifts and Donations	2,050	50
Miscellaneous	46,872	53,597
Proceeds from Sale of Capital Assets		1,889
Accrued Interest Received on Debt Issuance		2,561
Total General Revenues	<u>13,766,697</u>	<u>12,849,824</u>
Total Revenues	<u>16,961,958</u>	<u>13,985,524</u>
<u>Expenses:</u>		
Instruction	9,205,266	8,621,063
Support Services:		
Pupils	503,999	298,776
Instructional Staff	369,407	534,806
Board of Education	44,765	58,724
Administration	923,344	888,839
Fiscal	398,250	260,919
Operation and Maintenance of Plant	1,435,074	706,050
Pupil Transportation	566,367	1,125,792
Central	9,578	
Operational of Non-Instructional Services	582,396	469,404
Extracurricular Activities	529,018	678,141
Capital Outlay	38,669	116,735
Interest and Fiscal Charges	839,079	849,326
Total Expenses	<u>15,445,212</u>	<u>14,608,575</u>
Change in Net Assets	<u>\$1,516,746</u>	<u>(\$623,051)</u>

Program revenues increased by \$2,059,561 (181 percent). The increase was from the addition of the athletic complex that was donated by the Archbold Athletic Building Club.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

General revenues increased by \$916,873 (7 percent), which is attributed to increases in the amounts of property tax received.

Total expenses increased by \$836,637 (6 percent) due to increases in salaries and salary related expenditures.

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

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
Instruction	\$9,205,266	\$8,690,737	\$8,621,063	\$8,216,745
Support Services:				
Pupils	503,999	498,619	298,776	293,281
Instructional Staff	369,407	352,729	534,806	527,493
Board of Education	44,765	44,765	58,724	58,724
Administration	923,344	923,344	888,839	888,839
Fiscal	398,250	398,250	260,919	260,919
Operation and Maintenance of Plant	1,435,074	1,435,074	706,050	706,050
Pupil Transportation	566,367	566,367	1,125,792	1,125,792
Central	9,578	9,578		
Non-Instructional	582,396	123,371	469,404	9,792
Extracurricular Activities	529,018	(1,670,631)	678,141	419,179
Capital Outlay	38,669	38,669	116,735	116,735
Interest and Fiscal Charges	839,079	839,079	849,326	849,326
Total Expenses	\$15,445,212	\$12,249,951	\$14,608,575	\$13,472,875

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 79 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 Debt Service Fund. General Fund revenues were increased by 4 percent from 2005 primarily as a result of increases in property taxes and other local taxes. General Fund expenditures increased by 4 percent from 2005, which can be attributed to, increases in salary and related fringe benefits. Bond Retirement Debt Service Fund revenues decreased by 78 percent, and expenditures decreased by 83 percent. The decreases were the result of the District's refinancing of general obligation bonds in fiscal year 2005.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The net decrease in the General Fund balance for fiscal year 2005 was \$1,045,770, compared to \$1,080,175 for fiscal year 2006. This was primarily a result of increases in salary, employee benefits and retirement expenditure amounts during 2006. The net increase in the Bond Retirement Debt Service Fund balance for fiscal year 2005 was \$512,449 compared to \$557,699 for fiscal year 2006.

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 2006, the District amended its General Fund budget as needed.

Final budgeted revenues and other financing sources were \$11,390,982, above original budget estimates of \$10,902,599. Of this \$488,383 difference, most was due to conservative property and other tax estimates in the original budget.

Final expenditures and other financing uses were budgeted at \$13,584,573, which was less than one percent above the original budget estimates. Actual expenditures and other financing uses were \$828,326 less than final budgeted amounts primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$13,382,813 invested in capital assets (net of accumulated depreciation) for governmental activities, increase of 8 percent from the beginning of the year amount of \$12,278,450. For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2006, the District's long-term obligations, which include general obligation bonds payable and compensated absences, were \$16,237,356, down 5 percent from the end of fiscal year 2005 primarily due to the amortization of the 2005 bond refinancing.

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

At June 30, 2006, the District's overall legal debt margin was \$6,745,518, with an un-voted debt margin of \$245,481.

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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The District is currently operating in the first year of the state biennium budget. According to the 2005 Local District Report Card, 67% of District revenue sources are from local funds, 30% from state funds and the remaining 3% is from federal funds. The total expenditure per pupil was calculated at \$8,818, which is a \$2,034 increase from the 2000 report card.

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% 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 St., Archbold, Ohio 43502-1656.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2006**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	4,293,833
Materials and Supplies Inventory		21,431
Accrued Interest Receivable		14,056
Accounts Receivable		11,011
Intergovernmental Receivable		35,673
Taxes Receivable		10,667,954
Unamortized Bond Costs		755,069
Non-Depreciable Capital Assets		743,418
Depreciable Capital Assets, net		12,639,395
Total Assets		<u>29,181,840</u>
LIABILITIES:		
Accounts Payable		25,571
Accrued Wages and Benefits		1,123,964
Intergovernmental Payable		276,494
Matured Compensated Absences Payable		153,938
Deferred Revenue		8,994,614
Long-Term Liabilities:		
Due Within One Year		1,146,270
Due in More Than One Year		15,091,086
Total Liabilities		<u>26,811,937</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		(721,605)
Restricted for Debt Service		2,394,768
Restricted for Other Purposes		67,591
Unrestricted		629,149
Total Net Assets	\$	<u><u>2,369,903</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
June 30, 2006**

	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 7,436,166	\$ 71,256	\$ 70,641		\$ (7,294,269)
Special	1,397,571		371,032		(1,026,539)
Vocational	243,302				(243,302)
Adult/Continuing	1,600		1,600		
Other	126,627				(126,627)
Support Services:					
Pupils	503,999		5,380		(498,619)
Instructional Staff	369,407		16,678		(352,729)
Board of Education	44,765				(44,765)
Administration	923,344				(923,344)
Fiscal	398,250				(398,250)
Operation and Maintenance of Plant	1,435,074				(1,435,074)
Pupil Transportation	566,367				(566,367)
Central	9,578				(9,578)
Operation of Non-Instructional Services	582,396	355,439	103,586		(123,371)
Extracurricular Activities	529,018	266,493		\$ 1,933,156	1,670,631
Capital Outlay	38,669				(38,669)
Debt Service:					
Interest and Fiscal Charges	839,079				(839,079)
Totals	\$ 15,445,212	\$ 693,188	\$ 568,917	\$ 1,933,156	(12,249,951)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					6,708,528
Property Taxes, Levied for Debt Service					1,942,020
Grants and Entitlements not Restricted to Specific Programs					3,821,628
Gifts and Donations					2,050
Investment Earnings					224,136
Payments in Lieu of Taxes					1,021,463
Miscellaneous					46,872
Total General Revenues					13,766,697
Change in Net Assets					1,516,746
Net Assets Beginning of Year					853,157
Net Assets End of Year					\$ 2,369,903

See Accompanying Notes to the Basic Financial Statements

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,096,548	\$ 2,075,151	\$ 122,134	\$ 4,293,833
Materials and Supplies Inventory	12,535		8,896	21,431
Accrued Interest Receivable	14,056			14,056
Accounts Receivable	7,333		3,678	11,011
Interfund Receivable	3,286			3,286
Intergovernmental Receivable			35,673	35,673
Taxes Receivable	8,104,771	2,563,183		10,667,954
Total Assets	\$ 10,238,529	\$ 4,638,334	\$ 170,381	\$ 15,047,244
Liabilities				
Current Liabilities:				
Accounts Payable	10,634		14,937	25,571
Accrued Wages and Benefits	1,066,600		57,364	1,123,964
Interfund Payable			3,286	3,286
Intergovernmental Payable	253,173		23,321	276,494
Matured Compensated Absences Payable	150,056		3,882	153,938
Deferred Revenue	6,866,517	2,273,541	3,946	9,144,004
	8,346,980	2,273,541	106,736	10,727,257
Fund Balances				
Reserved:				
Reserved for Encumbrances	60		275	335
Reserved for Inventory	12,535		8,896	21,431
Reserved for Property Taxes	188,174	70,816		258,990
Unreserved, Undesignated, Reported in:				
General Fund	1,690,780			1,690,780
Special Revenue Funds			54,474	54,474
Debt Service Funds		2,293,977		2,293,977
Total Fund Balances	1,891,549	2,364,793	63,645	4,319,987
Total Liabilities and Fund Balances	\$ 10,238,529	\$ 4,638,334	\$ 170,381	\$ 15,047,244

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, 2006**

Total Governmental Fund Balances	\$	4,319,987
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.		13,382,813
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		149,390
Unamortized Bond Costs		755,069
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$	(15,347,787)
Compensated Absences Payable		<u>(889,569)</u>
		(16,237,356)
Net Assets of Governmental Activities	\$	<u><u>2,369,903</u></u>

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, 2006**

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property and Other Local Taxes	\$ 6,620,525	\$ 1,922,562	\$	\$ 8,543,087
Intergovernmental	3,490,788	277,521	\$ 618,290	4,386,599
Interest	224,136			224,136
Tuition and Fees	43,387		19,013	62,400
Rent	8,856			8,856
Extracurricular Activities			266,493	266,493
Gifts and Donations	2,050			2,050
Customer Sales and Services			355,439	355,439
Payments in Lieu of Taxes	1,021,463			1,021,463
Miscellaneous	43,872		3,000	46,872
Total Revenues	11,455,077	2,200,083	1,262,235	14,917,395
EXPENDITURES:				
Current:				
Instruction:				
Regular	6,694,379		72,938	6,767,317
Special	949,600		389,876	1,339,476
Vocational	199,752		1,198	200,950
Adult/Continuing			1,600	1,600
Other	126,627			126,627
Support Services:				
Pupils	492,563		6,687	499,250
Instructional Staff	348,129		16,678	364,807
Board of Education	44,765			44,765
Administration	974,586		3,293	977,879
Fiscal	355,212	45,162		400,374
Operation and Maintenance of Plant	1,498,944			1,498,944
Pupil Transportation	504,222			504,222
Central	9,578			9,578
Operation of Non-Instructional Services			570,877	570,877
Extracurricular Activities	260,343		266,536	526,879
Capital Outlay	38,669			38,669
Debt Service:				
Principal		1,115,000		1,115,000
Interest		482,222		482,222
Total Expenditures	12,497,369	1,642,384	1,329,683	15,469,436
Excess of Revenues Over (Under) Expenditures	<u>(1,042,292)</u>	<u>557,699</u>	<u>(67,448)</u>	<u>(552,041)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			37,883	37,883
Transfers Out	(37,883)			(37,883)
Total Other Financing Sources and Uses	(37,883)		37,883	
Net Change in Fund Balances	(1,080,175)	557,699	(29,565)	(552,041)
Fund Balance at Beginning of Year	2,971,724	1,807,094	93,210	4,872,028
Fund Balance at End of Year	\$ 1,891,549	\$ 2,364,793	\$ 63,645	\$ 4,319,987

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, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ (552,041)

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	\$ 2,055,645	
Depreciation	<u>(945,476)</u>	
		1,110,169

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

Loss on Disposal of Capital Assets		(5,806)
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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	3,946	
Delinquent Property Taxes	<u>107,461</u>	
		111,407

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		1,115,000
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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		(356,857)
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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	75,656	
Compensated Absences Payable	<u>19,218</u>	
		<u>94,874</u>

Change in Net Assets of Governmental Activities	\$	<u><u>1,516,746</u></u>
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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
General Fund
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 6,096,000	\$ 6,461,408	\$ 6,461,408	
Intergovernmental	3,398,599	3,490,788	3,490,788	
Interest	121,000	216,701	220,262	\$ 3,561
Tuition and Fees	89,500	92,174	92,174	
Rent	8,200	8,856	8,856	
Gifts and Donations		2,050	2,050	
Payments in Lieu of Taxes	1,021,463	1,021,463	1,021,463	
Miscellaneous	115,337	43,169	43,169	
Total Revenues	<u>10,850,099</u>	<u>11,336,609</u>	<u>11,340,170</u>	<u>3,561</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,088,059	7,074,053	6,906,518	167,535
Special	851,100	958,207	954,482	3,725
Vocational	213,115	215,997	202,486	13,511
Other	110,000	129,500	126,627	2,873
Support Services:				
Pupils	523,800	523,800	504,938	18,862
Instructional Staff	371,219	372,519	350,473	22,046
Board of Education	85,325	65,975	43,517	22,458
Administration	956,977	956,567	931,020	25,547
Fiscal	336,515	344,985	338,684	6,301
Operation and Maintenance of Plant	1,901,674	1,888,974	1,564,686	324,288
Pupil Transportation	591,100	584,900	489,317	95,583
Extracurricular Activities	263,200	272,400	263,661	8,739
Capital Outlay	52,700	52,810	38,669	14,141
Total Expenditures	<u>13,344,784</u>	<u>13,440,687</u>	<u>12,715,078</u>	<u>725,609</u>
Excess of Revenues (Under) Expenditures	<u>(2,494,685)</u>	<u>(2,104,078)</u>	<u>(1,374,908)</u>	<u>729,170</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures	52,500	54,373	54,373	
Transfers Out	(40,000)	(40,000)	(37,883)	2,117
Advances Out		(3,286)	(3,286)	
Other Financing Uses	(200,000)	(100,600)		100,600
Total Other Financing Sources and Uses	<u>(187,500)</u>	<u>(89,513)</u>	<u>13,204</u>	<u>102,717</u>
Net Change in Fund Balances	<u>(2,682,185)</u>	<u>(2,193,591)</u>	<u>(1,361,704)</u>	<u>831,887</u>
Fund Balance at Beginning of Year	3,367,180	3,367,180	3,367,180	
Prior Year Encumbrances Appropriated	80,377	80,377	80,377	
Fund Balance at End of Year	<u>\$ 765,372</u>	<u>\$ 1,253,966</u>	<u>\$ 2,085,853</u>	<u>\$ 831,887</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, 2006**

	Private Purpose Trust	Agency Fund
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents		\$ 43,754
Investments	\$ 49,353	
Total Assets	49,353	43,754
Liabilities		
Current Liabilities:		
Undistributed Monies		\$ 43,754
Net Assets		
Held in Trust for Scholarships	49,353	
Total Net Assets	\$ 49,353	

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, 2006**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>1,759</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>574</u>
Change in Net Assets	1,185
Net Assets Beginning of Year	<u>48,168</u>
Net Assets End of Year	<u>\$ <u>49,353</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, 2006**

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 Section 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 400th 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 1,370 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 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Bond Retirement Debt Service Fund - The Bond Retirement Debt Service 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.

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 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 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 2006, 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 2006, was \$224,136 for the General Fund, which includes \$117,020 assigned from other funds, and \$1,759 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. Inventory

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

On 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.

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:

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

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

The entire compensated 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.

J. 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.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. 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. There were no assets restricted by enabling legislation.

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

L. 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, property taxes, and encumbrances.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

M. Interfund Transactions

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

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.

N. 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 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.

O. 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.

P. Pass-Through Grants

The Preschool Disabilities Grant Fund (special revenue fund) is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting for 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.

Q. 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 2006.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

3. ACCOUNTABILITY

At June 30, 2006, the Lunchroom Fund and Title II-A Fund, special revenue funds, had a deficit fund balance of \$47,466 and \$3,286, respectively, 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.

4. CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2006, the District has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation." GASB Statement No. 46 defines enabling legislature and specifies how new assets should be reported in the financial statements when there are changes in legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

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).
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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$1,080,175)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	1,144,736
Accrued FY 2006, Not Yet Received in Cash	(1,259,643)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,620,569)
Accrued FY 2006, Not Yet Paid in Cash	1,467,928
Advances Net	(3,286)
Encumbrances Outstanding at Year End (Budget Basis)	<u>(10,695)</u>
Budget Basis	<u><u>(\$1,361,704)</u></u>

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. DEPOSITS AND INVESTMENTS – (Continued)

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

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

At year end, the District had \$75 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,974,243 of the District's bank balance of \$4,470,101 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(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 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2005. 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 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 2006 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, 2006, was \$188,174 in the General Fund, and \$70,816 in the Debt Service Fund. The amount available as an advance at June 30, 2005, was \$169,307 in the General Fund and \$63,340 in the Debt Service Fund.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$106,761,300	41%	\$110,210,470	45%
Industrial/Commercial	64,331,270	25%	68,273,510	28%
Public Utility	9,950,570	4%	8,972,950	3%
Tangible Personal	76,619,456	30%	58,024,240	24%
Total Assessed Value	<u>\$257,662,596</u>	<u>100%</u>	<u>\$245,481.70</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$48.25		\$48.25	

8. RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (tax abatements, interest, tuition and fees, and miscellaneous), intergovernmental receivables arising from grants, and property taxes. All receivables are considered collectible in full and within one year.

	Amount
Accounts Receivable:	
General Fund	
Tuition and Fees	\$5,235
Miscellaneous	2,098
Total General Fund	<u>\$7,333</u>
All Other Governmental Funds	
Extracurricular Activities	\$3,500
Customer Sales and Service	178
Total Other Governmental Funds	<u>\$3,678</u>
Intergovernmental Receivable:	
All Other Governmental Funds	
Federal Grant Monies	
Federal Subsidies	\$11,808
Title I Fund	19,919
Title II-A Fund	3,946
Total Intergovernmental Receivable	<u>\$35,673</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$743,418			\$743,418
Total Nondepreciable Capital Assets	<u>743,418</u>			<u>743,418</u>
Depreciable Capital Assets				
Land Improvements	158,740	\$1,615,784	(\$21,443)	1,753,081
Buildings and Building Improvements	22,098,047	290,028		22,388,075
Furniture, Fixtures, and Equipment	782,544	128,189	(8,675)	902,058
Vehicles	<u>1,030,825</u>	<u>21,644</u>	<u>(7,900)</u>	<u>1,044,569</u>
Total Depreciable Capital Assets	<u>24,070,156</u>	<u>2,055,645</u>	<u>(38,018)</u>	<u>26,087,783</u>
Less Accumulated Depreciation				
Land Improvements	(51,084)	(30,954)	17,154	(64,884)
Buildings and Building Improvements	(11,179,371)	(774,948)		(11,954,319)
Furniture, Fixtures, and Equipment	(567,434)	(52,691)	7,158	(612,967)
Vehicles	<u>(737,235)</u>	<u>(86,883)</u>	<u>7,900</u>	<u>(816,218)</u>
Total Accumulated Depreciation	<u>(12,535,124)</u>	<u>(945,476)</u>	<u>32,212</u>	<u>(13,448,388)</u>
Depreciable Capital Assets, Net	<u>11,535,032</u>	<u>1,110,169</u>	<u>(5,806)</u>	<u>12,639,395</u>
Governmental Activities Capital Assets, Net	<u>\$12,278,450</u>	<u>\$1,110,169</u>	<u>(\$5,806)</u>	<u>\$13,382,813</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$665,219
Special	54,913
Vocational	40,274
Support Services:	
Pupils	548
Instructional Staff	5,989
Fiscal	1,080
Operation and Maintenance of Plant	59,884
Pupil Transportation	83,114
Operation of Non-Instructional Services	3,029
Extracurricular Activities	<u>31,426</u>
Total Depreciation Expense	<u>\$945,476</u>

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

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 (the Plan), an insurance purchasing pool (See Note 18). 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 this 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 within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (see Note 18). 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 18). 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

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.

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 2006, 10.57 percent was the portion to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary 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, 2006, 2005, and 2004, were \$157,725, \$130,740, and \$121,388 respectively; 59 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

11. PENSION AND RETIREMENT PLANS – (Continued)

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$963,320, \$893,398, and \$850,148, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$74,102 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

13. POSTEMPLOYMENT BENEFITS – (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$78,626.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006, were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

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, 2006, the current amount of unpaid compensated absences in all funds was \$153,938, and the long-term amount was \$889,569.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS

During the year ended June 30, 2006, the following changes occurred in obligations reported in the government-wide financial statements:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/06</u>	<u>Due Within One Year</u>
School facilities construction and improvement bonds					
Series 1992:					
Capital appreciation bonds	\$983,735	\$68,321	\$545,000	\$507,056	\$507,056
Series 1996:					
Capital appreciation bonds	578,173	41,686	320,000	299,859	299,859
Series 2001:					
Current interest bonds	2,960,000		60,000	2,900,000	100,000
Capital appreciation bonds	247,834	25,709		273,543	
Total Series 2001	<u>3,207,834</u>	<u>25,709</u>	<u>60,000</u>	<u>3,173,543</u>	<u>100,000</u>
Series 2002:					
Current interest bonds	2,530,000		40,000	2,490,000	40,000
Capital appreciation bonds	494,962	29,981		524,943	
Total Series 2002	<u>3,024,962</u>	<u>29,981</u>	<u>40,000</u>	<u>3,014,943</u>	<u>40,000</u>
Series 2004					
Current interest bonds	6,635,000		150,000	6,485,000	150,000
Capital appreciation bonds	921,157	191,160		1,112,317	
Unamortized Bond Premium	804,424		49,355	755,069	49,355
Total Series 2004	<u>8,360,581</u>	<u>191,160</u>	<u>199,355</u>	<u>8,352,386</u>	<u>199,355</u>
Total General obligation bonds	<u>16,155,285</u>	<u>356,857</u>	<u>1,164,355</u>	<u>15,347,787</u>	<u>1,146,270</u>
Compensated absences payable	908,787		19,218	889,569	
Total	<u>\$17,064,072</u>	<u>\$356,857</u>	<u>\$1,183,573</u>	<u>\$16,237,356</u>	<u>\$1,146,270</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 of December 1, 2002. The term bonds were refunded in advance on December 1, 2002 with replacement bonds issued on November 26, 2002.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (Continued)

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

Maturity Date	Original Principal Amount	Accreted Value at Maturity
2006	\$45,841	\$540,000

The value of the capital appreciation bonds at June 30, 2006, was \$507,056. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$461,215 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. All current interest serial bonds had been retired as of August 17, 2004. The term bonds were refunded in advance on August 17, 2004, with replacement bonds issued on August 17, 2004.

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:

Maturity Date	Original Principal Amount	Accreted Value at Maturity
2006	\$118,582	\$325,000

The value of the capital appreciation bonds reported at June 30, 2006 was \$299,859. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$181,277 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:

Maturity Date	Principal Amount	Interest Rate
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, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (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:

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

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (Continued)

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, 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:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>
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, 2006, was \$273,543. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$128,543 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (Continued)

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:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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, 2003, was \$435,000.

The value of the capital appreciation bonds reported at June 30, 2006, was \$524,943. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$89,943 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

School Improvement Replacement Bonds – 2004

Proceeds from the outstanding bonds were used for the purpose of refunding a portion of general obligation refunding bonds, dated June 26, 1996, which were issued for the purpose of school building construction and improvement bonds dated June 1, 1996. The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

The refunding bonds were issued on August 17, 2004. The bonds consisted of \$6,635,000 in current interest serial bonds and \$729,797 in capital appreciation bonds.

The refunding bonds outstanding are general obligations of the District for which full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source payment is derived from a current tax levy.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (Continued)

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>
2007	150,000	2.50%
2008	480,000	2.50%
2013	495,000	3.50%
2014	510,000	3.70%
2015	525,000	3.80%
2016	550,000	3.90%
2017	565,000	4.00%
2018	590,000	4.10%
2019	615,000	4.20%
2020	645,000	4.25%
2021	665,000	4.35%
2022	695,000	4.45%

The current interest bonds maturing on or after December 1, 2015, 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 December 1, 2014, 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, 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 \$729,997 and mature on December 1 in the years, 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>
2009	\$232,461	\$490,000
2010	195,363	490,000
2011	164,189	490,000
2012	137,984	490,000

The value of the capital appreciation bonds reported at June 30, 2006, was \$1,112,317. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$382,320 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

15. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2006, are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,146,270	\$526,366	\$1,672,636
2008	1,174,298	520,642	1,694,940
2009	1,066,707	626,058	1,692,765
2010	1,034,597	654,943	1,689,540
2011	1,016,633	677,832	1,694,465
2012 – 2016	3,887,763	1,897,567	5,785,330
2017 – 2021	4,201,775	889,500	5,091,275
2022 – 2026	1,819,744	163,576	1,983,320
Total	<u>\$15,347,787</u>	<u>\$5,956,484</u>	<u>\$21,304,271</u>

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 \$45,640. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among 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. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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 a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school 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. 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 a school district library and 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.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

18. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$1,700,820. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,275 to the WCGRP to cover the costs of administering the program.

C. Ohio School Plan

The school belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan's audited financials statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

	<u>2005</u>	<u>2004</u>
Assets	\$952,191	\$850,065
Liabilities	\$213,419	\$509,558
Members' Equity	\$738,772	\$340,507

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

18. GROUP PURCHASING POOLS – (Continued)

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, www.ohioschoolplan.org.

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 be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Textbooks	Capital Acquisition	Totals
Set-aside Cash Balance as of June 30, 2005	(\$610,587)		(\$610,587)
Current Year Set-aside Requirement	198,744	\$198,744	397,488
Qualifying Disbursements	(262,208)	(202,433)	(464,641)
Set-aside Cash Balance as of June 30, 2006	(\$674,051)	(\$3,689)	(677,740)
Set-aside Amounts Carried Forward to Fiscal Year 2007	(\$674,051)		(\$674,951)

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

20. INTERFUND TRANSFERS

During the year ended June 30, 2006, the following transfers in and out occurred:

Fund	Transfer In	Transfer Out
General		\$37,883
All Other Governmental		
Food Service Fund	\$35,673	
Uniform School Supplies Fund	2,210	
Total All Other Government	37,883	
Total All	\$37,883	\$37,883

Transfers from the General Fund were made to move unrestricted balances to support programs and projects accounted for in other funds.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

20. INTERFUND TRANSFERS – (Continued)

Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$3,286

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006, are reported on the statement of net assets.

21. 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, 2006.

B. Litigation

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

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**Auditor of State
Betty Montgomery**

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

Archbold Area Local School District
Fulton County
600 Lafayette Street
Archbold, Ohio 43502-1656

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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated January 4, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

One Government Center / Room 1420 / Toledo, OH 43604-2246
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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated January 4, 2007, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

January 4, 2007

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

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

FINDING NUMBER 2006-001

Reportable Condition- Property Taxes

Section N50.115 of the Codification of Governmental Accounting and Financial Reporting Standards states that governments should recognize revenues from property taxes in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period.

The personal property tax settlement from Fulton County for June 2006 was not received by June 30, 2006. These settlement amounts should have been recorded as receivables and accrued as revenues. In addition, homestead and rollback from Henry County, previously excluded as part of the estimated taxes by the County Auditor, were incorrectly included in calculation of the receivable. These discrepancies resulted in an understatement of taxes receivable in the General Fund of \$1,109,566 and in the Bond Retirement Fund of \$286,879. Also, this adjustment had an aggregated effect of \$1,396,445 to the governmental wide financial statements.

Adjustments were recorded to recognize these amounts. We recommend that the District review Auditor of State bulletin #2001 – 004 which discusses the recognition of these amounts.

Officials Response:

Management will work with its independent public accountant to implement corrective procedures.

**ARCHBOLD AREA LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2005-001	Revised Code § 5705.41(d) (1) failure to certify expenditures	No	Partially corrected- reissued as a management letter comment.



Mary Taylor, CPA
Auditor of State

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
JANUARY 25, 2007**