



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 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, the major fund, and the aggregate remaining fund information of Central Local School District, Defiance 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 23, 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.

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Management 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 23, 2007

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

The discussion and analysis of the financial performance of Central 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:

In total, net assets decreased \$419,190.

General revenues accounted for \$9,396,089, or 89 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$1,147,296, or 11 percent of total revenues of \$10,543,385.

The District's major fund included the General Fund. The General Fund had \$9,033,450 in revenues and other financing sources and \$9,358,078 in expenditures. The General Fund's balance decreased \$324,628 from the prior fiscal year.

**Using the Basic Financial Statements**

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

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

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

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

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 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.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax and income revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

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

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

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

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



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE 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<br>(restated) |
|---|--------------|--------------------|
| <b><u>Assets:</u></b>                           |              |                    |
| Current and Other Assets                        | \$5,694,214  | \$5,472,302        |
| Capital Assets, Net                             | 10,841,087   | 11,204,942         |
| Total Assets                                    | 16,535,301   | 16,677,244         |
| <b><u>Liabilities:</u></b>                      |              |                    |
| Current and Other Liabilities                   | 3,279,223    | 2,955,086          |
| Long-Term Liabilities                           | 3,172,361    | 3,219,251          |
| Total Liabilities                               | 6,451,584    | 6,174,337          |
| <b><u>Net Assets:</u></b>                       |              |                    |
| Invested in Capital Assets, Net of Related Debt | 8,649,176    | 8,943,921          |
| Restricted                                      | 580,277      | 515,588            |
| Unrestricted                                    | 854,264      | 1,043,398          |
| Total   | \$10,083,717 | \$10,502,907       |

In fiscal year 2006 taxes receivable and deferred revenue increased due to an increase in the estimated taxes to be received.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE 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**

|  | <b>2006</b> | <b>2005<br/>(restated)</b> |
|--|-------------|----------------------------|
| <b><u>Revenues:</u></b>                      |             |                            |
| Program Revenues:                            |             |                            |
| Charges for Services and Sales               | \$505,772   | \$512,444                  |
| Operating Grants, Contributions and Interest | 629,236     | 637,044                    |
| Capital Grants and Contributions             | 12,288      |                            |
| Total Program Revenues                       | 1,147,296   | 1,149,488                  |
| General Revenues:                            |             |                            |
| Property Taxes                               | 2,549,491   | 2,501,284                  |
| Income Taxes                                 | 768,583     | 707,448                    |
| Grants and Entitlements                      | 5,867,485   | 5,532,824                  |
| Gifts and Donations                          | 41,633      | 38,768                     |
| Investment Earnings                          | 113,102     | 63,687                     |
| Miscellaneous                                | 55,795      | 42,940                     |
| Proceeds from Sale of Capital Assets         |             | 1,707                      |
| Total General Revenues                       | 9,396,089   | 8,888,658                  |
| Total Revenues                               | 10,543,385  | 10,038,146                 |
| <b><u>Expenses:</u></b>                      |             |                            |
| Instruction                                  | 5,804,764   | 5,475,743                  |
| Support Services:                            |             |                            |
| Pupils                                       | 465,201     | 377,838                    |
| Instructional Staff                          | 257,464     | 164,772                    |
| Board of Education                           | 27,446      | 29,012                     |
| Administration                               | 986,347     | 890,325                    |
| Fiscal                                       | 241,866     | 227,176                    |
| Business                                     | 97,901      | 4,787                      |
| Operation and Maintenance of Plant           | 749,707     | 725,455                    |
| Pupil Transportation                         | 810,333     | 748,219                    |
| Central                                      | 181,592     | 160,046                    |
| Non-Instructional                            | 449,184     | 465,301                    |
| Extracurricular Activities                   | 425,512     | 444,682                    |
| Capital Outlay                               | 332,348     | 524,248                    |
| Interest and Fiscal Charges                  | 132,910     | 136,913                    |
| Total Expenses                               | 10,962,575  | 10,374,517                 |
| Decrease in Net Assets                       | (\$419,190) | (\$336,371)                |

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

Governmental Activities

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

**Table 3  
Governmental Activities**

|                                    | <b>Total Cost<br/>of Services</b> | <b>Net Cost of<br/>Services</b> | <b>Total Cost<br/>of Services</b> | <b>Net Cost of<br/>Services</b> |
|------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|                                    | <b>2006</b>                       | <b>2006</b>                     | <b>2005<br/>(restated)</b>        | <b>2005<br/>(restated)</b>      |
| Instruction                        | \$5,804,764                       | \$5,292,532                     | \$5,475,743                       | \$4,980,316                     |
| Support Services:                  |                                   |                                 |                                   |                                 |
| Pupils                             | 465,201                           | 452,113                         | 377,838                           | 370,307                         |
| Instructional Staff                | 257,464                           | 254,273                         | 164,772                           | 157,534                         |
| Board of Education                 | 27,446                            | 27,446                          | 29,012                            | 29,012                          |
| Administration                     | 986,347                           | 955,123                         | 890,325                           | 848,029                         |
| Fiscal                             | 241,866                           | 241,866                         | 227,176                           | 227,176                         |
| Business                           | 97,901                            | 97,901                          | 4,787                             | 4,787                           |
| Operation and Maintenance of Plant | 749,707                           | 749,707                         | 725,455                           | 725,455                         |
| Pupil Transportation               | 810,333                           | 810,333                         | 748,219                           | 748,219                         |
| Central                            | 181,592                           | 163,814                         | 160,046                           | 146,100                         |
| Non-Instructional                  | 449,184                           | (7,880)                         | 465,301                           | 31,381                          |
| Extracurricular Activities         | 425,512                           | 312,793                         | 444,682                           | 295,552                         |
| Capital Outlay                     | 332,348                           | 332,348                         | 524,248                           | 524,248                         |
| Interest and Fiscal Charges        | 132,910                           | 132,910                         | 136,913                           | 136,913                         |
| <b>Total Expenses</b>              | <b>\$10,962,575</b>               | <b>\$9,815,279</b>              | <b>\$10,374,517</b>               | <b>\$9,225,029</b>              |

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 91 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 89 percent. The remaining 11 percent are derived from tuition and fees, specific grants, and donations.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$10,462,892 and expenditures and other financing uses of \$10,723,156. The net negative change of \$260,264 in fund balance for the year indicates that the District had difficulty in meeting current costs without using available carryover balances.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

Final expenditures and other financing uses were budgeted at \$11,466,146 while actual expenditures and other financing uses were \$9,300,003. The \$2,166,143 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the District had \$10,841,087 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

**Debt**

At June 30, 2006, the District had \$2,191,911 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2023. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2006, the District's overall legal debt margin was \$6,188,366, with an un-voted debt margin of \$93,114.

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

**Current Issues**

The District is holding its own in the state of a declining economy and uncertainty in State funding. Sherwood, Mark Center, Farmer and Ney are small rural communities located within the District. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 36 percent of District revenue sources is from local funds, 59 percent is from state funds, and the remaining 5 percent is from federal funds. The total expenditure per pupil was calculated at \$9,055.

In May 1989, the District passed a three-year emergency levy to generate \$615,000 annually. This three-year emergency levy was renewed in May 2003. This levy provides a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Barbara Clark, Treasurer, Central Local School District, 06289 U S Highway 127, Sherwood, Ohio 43556-9735.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

|   |    | <b>Governmental<br/>Activities</b> |
|---|----|------------------------------------|
| <b>Assets:</b>                                  |    |                                    |
| Equity in Pooled Cash and Cash Equivalents      | \$ | 1,595,588                          |
| Investments                                     |    | 950,703                            |
| Materials and Supplies Inventory                |    | 66,982                             |
| Accrued Interest Receivable                     |    | 2,691                              |
| Accounts Receivable                             |    | 16,377                             |
| Intergovernmental Receivable                    |    | 3,499                              |
| Prepaid Items                                   |    | 26,160                             |
| Taxes Receivable                                |    | 2,702,446                          |
| Income Taxes Receivable                         |    | 329,768                            |
| Non-Depreciable Capital Assets                  |    | 201,152                            |
| Depreciable Capital Assets, net                 |    | <u>10,639,935</u>                  |
| Total Assets                                    |    | <u><u>16,535,301</u></u>           |
| <br><b>LIABILITIES:</b>                         |    |                                    |
| Accounts Payable                                |    | 14,172                             |
| Accrued Wages and Benefits                      |    | 561,982                            |
| Intergovernmental Payable                       |    | 192,606                            |
| Matured Compensated Absences Payable            |    | 146,457                            |
| Deferred Revenue                                |    | 2,364,006                          |
| Long-Term Liabilities:                          |    |                                    |
| Due Within One Year                             |    | 90,000                             |
| Due in More Than One Year                       |    | <u>3,082,361</u>                   |
| Total Liabilities                               |    | <u><u>6,451,584</u></u>            |
| <br><b>NET ASSETS:</b>                          |    |                                    |
| Invested in Capital Assets, Net of Related Debt |    | 8,649,176                          |
| Restricted for Debt Service                     |    | 133,636                            |
| Restricted for Capital Outlay                   |    | 3,182                              |
| Restricted for Other Purposes                   |    | 443,459                            |
| Unrestricted                                    |    | <u>854,264</u>                     |
| Total Net Assets                                | \$ | <u><u>10,083,717</u></u>           |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2006**

|   | Program Revenues                     |  |  | Net(Expense)<br>Revenue and<br>Changes in Net<br>Assets |
|---|--------------------------------------|--|--|---|
| Expenses  | Charges for<br>Services and<br>Sales | Operating<br>Grants and<br>Contributions | Capital Grants<br>and<br>Contributions | Governmental<br>Activities                              |
| Governmental Activities:                                    |                                      |  |  |   |
| Instruction:  |                                      |  |  |   |
| Regular   | \$ 4,228,214                         | \$ 77,383                                | \$ 86,002                              | \$ (4,064,829)  |
| Special   | 1,081,501                            |  | 348,847                                | (732,654)   |
| Vocational  | 170,117                              |  |  | (170,117)   |
| Adult/Continuing  | 28,556                               |  |  | (28,556)  |
| Other   | 296,376                              |  |  | (296,376)   |
| Support Services:   |                                      |  |  |   |
| Pupils  | 465,201                              |  | 800                                    | (452,113)   |
| Instructional Staff   | 257,464                              |  | 3,191                                  | (254,273)   |
| Board of Education  | 27,446                               |  |  | (27,446)  |
| Administration  | 986,347                              | 24,224                                   | 7,000                                  | (955,123)   |
| Fiscal  | 241,866                              |  |  | (241,866)   |
| Business  | 97,901                               |  |  | (97,901)  |
| Operation and Maintenance of Plant                          | 749,707                              |  |  | (749,707)   |
| Pupil Transportation  | 810,333                              |  |  | (810,333)   |
| Central   | 181,592                              |  | 17,778                                 | (163,814)   |
| Operation of Non-Instructional Services                     | 449,184                              | 291,446                                  | 165,618                                | 7,880   |
| Extracurricular Activities                                  | 425,512                              | 112,719                                  |  | (312,793)   |
| Capital Outlay  | 332,348                              |  |  | (332,348)   |
| Debt Service:   |                                      |  |  |   |
| Interest and Fiscal Charges                                 | 132,910                              |  |  | (132,910)   |
| <b>Totals</b>   | <b>\$ 10,962,575</b>                 | <b>\$ 505,772</b>                        | <b>\$ 629,236</b>                      | <b>\$ 12,288</b>  |
|   | <b>\$ 9,815,279</b>                  |  |  | <b>\$ (9,815,279)</b>                                   |
| General Revenues:   |                                      |  |  |   |
| Taxes:  |                                      |  |  |   |
| Property Taxes, Levied for General Purposes                 |                                      |  |  | 2,316,381   |
| Property Taxes, Levied for Debt Service                     |                                      |  |  | 192,354   |
| Property Taxes, Levied for Other                            |                                      |  |  | 40,756  |
| Income Taxes  |                                      |  |  | 768,583   |
| Grants and Entitlements not Restricted to Specific Programs |                                      |  |  | 5,867,485   |
| Gifts and Donations   |                                      |  |  | 41,633  |
| Investment Earnings   |                                      |  |  | 113,102   |
| Miscellaneous   |                                      |  |  | 55,795  |
| <b>Total General Revenues</b>                               |                                      |  |  | <b>9,396,089</b>  |
| Change in Net Assets  |                                      |  |  | (419,190)   |
| Net Assets Beginning of Year                                |                                      |  |  | 10,502,907  |
| Net Assets End of Year                                      |                                      |  |  | <b>\$ 10,083,717</b>                                    |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

|  | <b>General Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|---------------------|---|---|
| <b>Assets</b>                                      |                     |   |   |
| Current Assets:                                    |                     |   |   |
| Equity in Pooled Cash and Cash Equivalents         | \$ 938,300          | \$ 570,341                              | \$ 1,508,641                            |
| Investments  | 950,703             |   | 950,703                                 |
| Materials and Supplies Inventory                   | 44,585              | 22,397                                  | 66,982                                  |
| Accrued Interest Receivable                        | 2,691               |   | 2,691                                   |
| Accounts Receivable                                | 14,842              | 1,535                                   | 16,377                                  |
| Intergovernmental Receivable                       |                     | 3,499                                   | 3,499                                   |
| Prepaid Items                                      | 26,160              |   | 26,160                                  |
| Taxes Receivable                                   | 2,459,482           | 242,964                                 | 2,702,446                               |
| Income Taxes Receivable                            | 329,768             |   | 329,768                                 |
| Restricted Assets:                                 |                     |   |   |
| Equity in Pooled Cash and Cash Equivalents         | 86,947              |   | 86,947                                  |
| <b>Total Assets</b>                                | <b>\$ 4,853,478</b> | <b>\$ 840,736</b>                       | <b>\$ 5,694,214</b>                     |
| <b>Liabilities</b>                                 |                     |   |   |
| Current Liabilities:                               |                     |   |   |
| Accounts Payable                                   | 3,755               | 10,417                                  | 14,172                                  |
| Accrued Wages and Benefits                         | 541,046             | 20,936                                  | 561,982                                 |
| Intergovernmental Payable                          | 185,151             | 7,455                                   | 192,606                                 |
| Matured Compensated Absences Payable               | 146,457             |   | 146,457                                 |
| Deferred Revenue                                   | 2,309,614           | 221,976                                 | 2,531,590                               |
|  | <b>3,186,023</b>    | <b>260,784</b>                          | <b>3,446,807</b>                        |
| <b>Fund Balances</b>                               |                     |   |   |
| Reserved:  |                     |   |   |
| Reserved for Encumbrances                          | 94,882              | 27,598                                  | 122,480                                 |
| Reserved for Inventory                             | 44,585              | 22,397                                  | 66,982                                  |
| Reserved for Prepaid Items                         | 26,160              |   | 26,160                                  |
| Reserved for Property Taxes                        | 209,880             | 20,988                                  | 230,868                                 |
| Reserved for Textbooks and Instructional Materials | 61,122              |   | 61,122                                  |
| Reserved for Capital Acquisitions                  | 25,825              |   | 25,825                                  |
| Unreserved, Undesignated, Reported in:             |                     |   |   |
| General Fund                                       | 1,205,001           |   | 1,205,001                               |
| Special Revenue Funds                              |                     | 390,079                                 | 390,079                                 |
| Debt Service Funds                                 |                     | 115,708                                 | 115,708                                 |
| Capital Projects Funds                             |                     | 3,182                                   | 3,182                                   |
| <b>Total Fund Balances</b>                         | <b>1,667,455</b>    | <b>579,952</b>                          | <b>2,247,407</b>                        |
| <b>Total Liabilities and Fund Balances</b>         | <b>\$ 4,853,478</b> | <b>\$ 840,736</b>                       | <b>\$ 5,694,214</b>                     |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006**

|   |    |                          |
|---|----|--------------------------|
| Total Governmental Fund Balances  | \$ | 2,247,407                |
| 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. |    | 10,841,087               |
| Taxes Receivable that do not provide financial resources are not reported as revenues in governmental funds.          |    | 167,584                  |
| Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:             |    |                          |
| General Obligation Bonds Payable  | \$ | (2,191,911)              |
| Compensated Absences Payable  |    | (980,450)                |
|   |    | <u>(3,172,361)</u>       |
| Net Assets of Governmental Activities   | \$ | <u><u>10,083,717</u></u> |

See Accompanying Notes to the Basic Financial Statements



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006**

|  | General Fund | All Other<br>Governmental<br>Funds | Total Governmental<br>Funds |
|--|--------------|------------------------------------|-----------------------------|
| <b>REVENUES:</b>                             |              |                                    |                             |
| Property and Other Local Taxes               | \$ 2,244,267 | \$ 232,785                         | \$ 2,477,052                |
| Income Tax                                   | 758,953      |                                    | 758,953                     |
| Intergovernmental                            | 5,892,923    | 616,086                            | 6,509,009                   |
| Interest                                     | 96,283       | 16,819                             | 113,102                     |
| Tuition and Fees                             |              | 75,692                             | 75,692                      |
| Rent   | 380          |                                    | 380                         |
| Extracurricular Activities                   |              | 114,934                            | 114,934                     |
| Gifts and Donations                          | 18,169       | 23,464                             | 41,633                      |
| Customer Sales and Services                  | 449          | 314,317                            | 314,766                     |
| Miscellaneous                                | 20,450       | 35,345                             | 55,795                      |
| Total Revenues                               | 9,031,874    | 1,429,442                          | 10,461,316                  |
| <b>EXPENDITURES:</b>                         |              |                                    |                             |
| Current:                                     |              |                                    |                             |
| Instruction:                                 |              |                                    |                             |
| Regular                                      | 4,003,210    | 109,520                            | 4,112,730                   |
| Special                                      | 891,404      | 218,214                            | 1,109,618                   |
| Vocational                                   | 165,735      | 2,462                              | 168,197                     |
| Adult/Continuing                             | 28,556       |                                    | 28,556                      |
| Other  | 287,128      |                                    | 287,128                     |
| Support Services:                            |              |                                    |                             |
| Pupils                                       | 385,836      | 69,346                             | 455,182                     |
| Instructional Staff                          | 198,603      | 69,775                             | 268,378                     |
| Board of Education                           | 27,446       |                                    | 27,446                      |
| Administration                               | 950,361      | 71,522                             | 1,021,883                   |
| Fiscal                                       | 240,967      | 5,654                              | 246,621                     |
| Business                                     | 93,113       |                                    | 93,113                      |
| Operation and Maintenance of Plant           | 750,570      |                                    | 750,570                     |
| Pupil Transportation                         | 857,973      |                                    | 857,973                     |
| Central                                      | 158,005      | 27,546                             | 185,551                     |
| Operation of Non-Instructional Services      |              | 439,726                            | 439,726                     |
| Extracurricular Activities                   | 296,571      | 118,642                            | 415,213                     |
| Capital Outlay                               | 22,600       | 29,075                             | 51,675                      |
| Debt Service:                                |              |                                    |                             |
| Principal                                    |              | 85,000                             | 85,000                      |
| Interest                                     |              | 117,020                            | 117,020                     |
| Total Expenditures                           | 9,358,078    | 1,363,502                          | 10,721,580                  |
| Excess of Revenues Over (Under) Expenditures | (326,204)    | 65,940                             | (260,264)                   |
| <b>OTHER FINANCING SOURCES AND USES:</b>     |              |                                    |                             |
| Transfers In                                 | 1,576        |                                    | 1,576                       |
| Transfers Out                                |              | (1,576)                            | (1,576)                     |
| Total Other Financing Sources and Uses       | 1,576        | (1,576)                            | (260,264)                   |
| Net Change in Fund Balances                  | (324,628)    | 64,364                             | (260,264)                   |
| Fund Balance at Beginning of Year            | 1,992,083    | 515,588                            | 2,507,671                   |
| Fund Balance at End of Year                  | \$ 1,667,455 | \$ 579,952                         | \$ 2,247,407                |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ (260,264)

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 | \$ 182,729       |           |
| Depreciation                                | <u>(537,607)</u> |           |
|   |                  | (354,878) |

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

|                                    |  |         |
|------------------------------------|--|---------|
| Loss on Disposal of Capital Assets |  | (8,977) |
|------------------------------------|--|---------|

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

|                           |               |        |
|---------------------------|---------------|--------|
| Income Taxes              | 9,630         |        |
| Delinquent Property Taxes | <u>72,439</u> |        |
|                           |               | 82,069 |

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

85,000

Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.

(15,890)

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

|                              |                 |        |
|------------------------------|-----------------|--------|
| Intergovernmental Payable    | 75,970          |        |
| Compensated Absences Payable | <u>(22,220)</u> |        |
|                              |                 | 53,750 |

|   |    |                         |
|---|----|-------------------------|
| Change in Net Assets of Governmental Activities | \$ | <u><u>(419,190)</u></u> |
|---|----|-------------------------|

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual Comparison (Non-GAAP Basis)  
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<br/>Budget Over/(Under)</u> |
|---|------------------------|---------------------|---------------------|--|
| <b>REVENUES:</b>                        |                        |                     |                     |  |
| Property and Other Local Taxes          | \$ 2,339,400           | \$ 2,288,764        | \$ 2,339,154        | \$ 50,390  |
| Income Tax                              | 737,500                | 728,054             | 728,054             |  |
| Intergovernmental                       | 5,827,764              | 5,856,434           | 5,892,499           | 36,065   |
| Interest                                | 65,000                 | 85,330              | 95,163              | 9,833  |
| Tuition and Fees                        | 500                    | 500                 |                     | (500)  |
| Rent                                    | 2,000                  | 2,000               | 380                 | (1,620)  |
| Gifts and Donations                     | 13,500                 | 13,500              | 18,169              | 4,669  |
| Customer Sales and Services             | 870                    | 870                 | 462                 | (408)  |
| Miscellaneous                           | 7,800                  | 7,800               | 3,219               | (4,581)  |
| Total Revenues                          | <u>8,994,334</u>       | <u>8,983,252</u>    | <u>9,077,100</u>    | <u>93,848</u>                                      |
| <b>EXPENDITURES:</b>                    |                        |                     |                     |  |
| Current:                                |                        |                     |                     |  |
| Instruction:                            |                        |                     |                     |  |
| Regular                                 | 4,300,619              | 4,457,250           | 4,021,674           | 435,576  |
| Special                                 | 739,857                | 966,412             | 894,724             | 71,688   |
| Vocational                              | 202,258                | 214,738             | 183,747             | 30,991   |
| Adult/Continuing                        | 15,000                 | 29,000              | 28,556              | 444  |
| Other                                   | 315,320                | 333,584             | 289,466             | 44,118   |
| Support Services:                       |                        |                     |                     |  |
| Pupils                                  | 271,163                | 427,515             | 390,164             | 37,351   |
| Instructional Staff                     | 186,258                | 225,532             | 199,345             | 26,187   |
| Board of Education                      | 36,258                 | 37,082              | 30,098              | 6,984  |
| Administration                          | 1,392,650              | 1,001,937           | 882,285             | 119,652  |
| Fiscal                                  | 254,312                | 256,329             | 235,033             | 21,296   |
| Business                                | 65,891                 | 72,907              | 48,009              | 24,898   |
| Operation and Maintenance of Plant      | 818,077                | 879,487             | 749,568             | 129,919  |
| Pupil Transportation                    | 994,407                | 1,126,467           | 855,402             | 271,065  |
| Central                                 | 183,413                | 216,008             | 166,389             | 49,619   |
| Operation of Non-Instructional Services | 400                    | 400                 |                     | 400  |
| Extracurricular Activities              | 315,140                | 336,894             | 294,210             | 42,684   |
| Capital Outlay                          | 266,566                | 258,464             | 30,725              | 227,739  |
| Total Expenditures                      | <u>10,357,589</u>      | <u>10,840,006</u>   | <u>9,299,395</u>    | <u>1,540,611</u>                                   |
| Excess of Expenditures Over Revenues    | <u>(1,363,255)</u>     | <u>(1,856,754)</u>  | <u>(222,295)</u>    | <u>1,634,459</u>                                   |
| Other Financing Sources and Uses:       |                        |                     |                     |  |
| Transfers In                            | 384,099                | 384,099             | 1,576               | (382,523)  |
| Proceeds from Sale of Fixed Assets      | 1,600                  | 1,600               | 1,335               | (265)  |
| Refund of Prior Year Expenditures       | 2,000                  | 2,000               | 2,118               | 118  |
| Transfers Out                           | (624,140)              | (624,140)           |                     | 624,140  |
| Refund of Prior Year Receipts           | (1,392)                | (1,392)             |                     | 1,392  |
| Other Financing Uses                    | (608)                  | (608)               | (608)               |  |
| Total Other Financing Sources and Uses  | <u>(238,441)</u>       | <u>(238,441)</u>    | <u>4,421</u>        | <u>242,862</u>                                     |
| Net Change in Fund Balances             | <u>(1,601,696)</u>     | <u>(2,095,195)</u>  | <u>(217,874)</u>    | <u>1,877,321</u>                                   |
| Fund Balance at Beginning of Year       | 1,822,965              | 1,822,965           | 1,822,965           |  |
| Prior Year Encumbrances Appropriated    | 272,221                | 272,221             | 272,221             |  |
| Fund Balance (Deficit) at End of Year   | <u>\$ 493,490</u>      | <u>\$ (9)</u>       | <u>\$ 1,877,312</u> | <u>\$ 1,877,321</u>                                |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

|  | <b>Private<br/>Purpose Trust</b> | <b>Agency Fund</b>                    |
|--|----------------------------------|---------------------------------------|
| <b>Assets</b>                              |                                  |                                       |
| Current Assets:                            |                                  |                                       |
| Equity in Pooled Cash and Cash Equivalents | \$ <u>5,221</u>                  | \$ <u>43,707</u>                      |
| Total Assets                               | <u>5,221</u>                     | <u>43,707</u>                         |
| <b>Liabilities</b>                         |                                  |                                       |
| Current Liabilities:                       |                                  |                                       |
| Undistributed Monies                       | <u>                    </u>      | <u>43,707</u>                         |
| Total Liabilities                          | <u>                    </u>      | <u>43,707</u>                         |
| <b>Net Assets</b>                          |                                  |                                       |
| Held in Trust for Scholarships             | <u>5,221</u>                     | <u>                    </u>           |
| Total Net Assets                           | <u>\$ <u>5,221</u></u>           | <u>\$ <u>                    </u></u> |

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006**

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

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Central Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Central Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 65 non-certified and 82 certified full-time teaching personnel who provide services to 1,184 students and other community members.

**The Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED 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 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 and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. Fund Accounting**

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

Governmental Funds

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Fiduciary Funds

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

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is accounted for using a flow of economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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

Deferred Revenue

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

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

Expenditures/Expenses

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

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

**E. Budgetary Process**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2006, investments were limited to STAR Ohio, certificates of deposit, and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market values. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2006.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$96,283, which includes \$12,296 assigned from other District funds.

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

**G. Inventory**

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

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**H. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for the acquisition of textbooks and instructional materials and capital acquisitions.

**I. Capital Assets**

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

**J. Interfund Balances**

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

**K. Compensated Absences**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED 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 absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**M. Net Assets**

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

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

**N. Prepaid Items**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**O. Fund Balance Reserves**

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

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

**P. Estimates**

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

**Q. Pass-Through Grants**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**3. ACCOUNTABILITY**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. ACCOUNTABILITY – (Continued)**

The implementation of GASB Statement No. 42 and 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.

**B. Restatement of Net Assets**

The change in net assets due to an accounting change regarding capital asset depreciation in the governmental activities is presented as follows:

|                                    | <u>Governmental<br/>Activities</u> |
|------------------------------------|------------------------------------|
| Net Assets, June 30, 2005          | \$10,332,637                       |
| Restatement of Depreciation        | 170,270                            |
| Restated Net Assets, June 30, 2005 | <u><u>\$10,502,907</u></u>         |

**4. BUDGETARY BASIS OF ACCOUNTING**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING – (Continued)**

| <b>Net Change in Fund Balance<br/>Major Governmental Fund</b> |             |
|---|-------------|
| GAAP Basis  | (\$324,628) |
| <u>Increase (Decrease) Due To:</u>                            |             |
| Revenue Accruals:   |             |
| Accrued FY 2005, Received In Cash FY 2006                     | 545,240     |
| Accrued FY 2006, Not Yet Received in Cash                     | (500,014)   |
| Expenditure Accruals:   |             |
| Accrued FY 2005, Paid in Cash FY 2006                         | (648,344)   |
| Accrued FY 2006, Not Yet Paid in Cash                         | 805,664     |
| Net Accrued for Other Sources and Uses                        | 2,845       |
| Encumbrances Outstanding at Year End (Budget Basis)           | (98,637)    |
| Budget Basis  | (\$217,874) |

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. 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 trading requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$377,147 of the District's bank balance of \$627,264 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.

Investments

As of June 30, 2006, the District had the following investments and maturities:



**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS – (Continued)**

| <u>Investment Type</u>                       | <u>Fair Value</u>  | <u>Maturities Less than One Year</u> |
|--|--------------------|--------------------------------------|
| Federal Home Loan Mortgage Corporation Notes | \$474,418          | \$474,418                            |
| Federal National Mortgage Association Notes  | 227,284            | 227,284                              |
| Federal Home Loan Bank Notes                 | 249,001            | 249,001                              |
| STAR Ohio                                    | 1,186,403          | 1,186,403                            |
| Total Investments                            | <u>\$2,137,106</u> | <u>\$2,137,106</u>                   |

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

Credit Risk - The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and Federal Home Loan Bank Notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The Federated United States Treasury Cash Reserve Mutual Fund and STAR Ohio carry a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal National Mortgage Association Notes, the Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes represent 11%, 22%, and 12%, respectively, of the District's total investments.

**6. PROPERTY TAXES**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. PROPERTY TAXES – (Continued)**

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, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Defiance and Williams Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County 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 \$209,880 in the General Fund, \$3,331 in the Special Revenue Fund, and \$17,657 in the Debt Service Fund. The amount available as an advance at June 30, 2005, was \$304,767 in the General Fund, \$5,000 in the Special Revenue Fund, and \$26,314 in the Debt Service Fund.

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. PROPERTY TAXES – (Continued)**

|  | <u>2005 Second-<br/>Half Collections</u> |                | <u>2006 First-<br/>Half Collections</u> |                |
|--|--|----------------|---|----------------|
|  | <u>Amount</u>                            | <u>Percent</u> | <u>Amount</u>                           | <u>Percent</u> |
| Agricultural/Residential                   | \$76,890,510                             | 84%            | \$80,454,880                            | 86%            |
| Industrial/Commercial                      | 2,549,710                                | 3%             | 3,011,210                               | 3%             |
| Public Utility                             | 9,897,880                                | 11%            | 8,347,980                               | 9%             |
| Tangible Personal                          | 1,826,074                                | 2%             | 1,300,123                               | 2%             |
| Total Assessed Value                       | <u>\$91,164,174</u>                      | <u>100%</u>    | <u>\$93,114,193</u>                     | <u>100%</u>    |
| Tax rate per \$1,000 of assessed valuation | \$32.90                                  |                | \$32.60                                 |                |

**7. INCOME TAX**

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

**8. RECEIVABLES**

Receivables at June 30, 2006, consisted of property, income tax, accounts (rent and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

|                                     | <u>Amount</u>  |
|-------------------------------------|----------------|
| Governmental Activities             |                |
| Title II-A                          | \$3,467        |
| Title II-D                          | 32             |
| Total Intergovernmental Receivables | <u>\$3,499</u> |

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to a prior period adjustment. See Note 3.B for detail:

|   | <b>Audited<br/>Balance<br/>6/30/05</b> | <b>Adjustments</b> | <b>Restated<br/>Balance<br/>6/30/06</b> |
|---|--|--------------------|---|
| <b>Governmental Activities</b>              |  |                    |   |
| Nondepreciable Capital Assets               |  |                    |   |
| Land  | \$201,152                              |                    | \$201,152                               |
| Total Nondepreciable Capital Assets         | <u>201,152</u>                         |                    | <u>201,152</u>                          |
| Depreciable Capital Assets                  |  |                    |   |
| Land Improvements                           | 2,094,621                              |                    | 2,094,621                               |
| Buildings and Building Improvements         | 11,269,526                             |                    | 11,269,526                              |
| Furniture, Fixtures, and Equipment          | 1,289,689                              |                    | 1,289,689                               |
| Vehicles                                    | 1,309,916                              |                    | 1,309,916                               |
| Total Depreciable Capital Assets            | <u>15,963,752</u>                      |                    | <u>15,963,752</u>                       |
| Less Accumulated Depreciation               |  |                    |   |
| Land Improvements                           | (184,011)                              | (\$206,116)        | (390,127)                               |
| Buildings and Building Improvements         | (3,323,646)                            | 358,533            | (2,965,113)                             |
| Furniture, Fixtures, and Equipment          | (756,406)                              | 17,852             | (738,554)                               |
| Vehicles                                    | (866,169)                              | 1                  | (866,168)                               |
| Total Accumulated Depreciation              | <u>(5,130,232)</u>                     | <u>170,270</u>     | <u>(4,959,962)</u>                      |
| Depreciable Capital Assets, Net             | <u>10,833,520</u>                      | <u>170,270</u>     | <u>11,003,790</u>                       |
| Governmental Activities Capital Assets, Net | <u>\$11,034,672</u>                    | <u>\$170,270</u>   | <u>\$11,204,942</u>                     |

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. CAPITAL ASSETS – (Continued)**

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

|   | <b>Restated<br/>Balance at<br/>6/30/05</b> | <b>Additions</b>   | <b>Reductions</b> | <b>Balance at<br/>6/30/06</b> |
|---|--|--------------------|-------------------|-------------------------------|
| Governmental Activities                     |  |                    |                   |                               |
| Nondepreciable Capital Assets               |  |                    |                   |                               |
| Land  | \$201,152                                  |                    |                   | \$201,152                     |
| Total Nondepreciable Capital Assets         | <u>201,152</u>                             |                    |                   | <u>201,152</u>                |
| Depreciable Capital Assets                  |  |                    |                   |                               |
| Land Improvements                           | 2,094,621                                  | \$105              |                   | 2,094,726                     |
| Buildings and Building Improvements         | 11,269,526                                 |                    |                   | 11,269,526                    |
| Furniture, Fixtures, and Equipment          | 1,289,689                                  | 60,914             | (\$88,752)        | 1,261,851                     |
| Vehicles                                    | 1,309,916                                  | 121,710            | (63,407)          | 1,368,219                     |
| Total Depreciable Capital Assets            | <u>15,963,752</u>                          | <u>182,729</u>     | <u>(152,159)</u>  | <u>15,994,322</u>             |
| Less Accumulated Depreciation               |  |                    |                   |                               |
| Land Improvements                           | (390,127)                                  | (72,958)           |                   | (463,085)                     |
| Buildings and Building Improvements         | (2,965,113)                                | (237,260)          |                   | (3,202,373)                   |
| Furniture, Fixtures, and Equipment          | (738,554)                                  | (123,157)          | 79,775            | (781,936)                     |
| Vehicles                                    | (866,168)                                  | (104,232)          | 63,407            | (906,993)                     |
| Total Accumulated Depreciation              | <u>(4,959,962)</u>                         | <u>(537,607)</u>   | <u>143,182</u>    | <u>(5,354,387)</u>            |
| Depreciable Capital Assets, Net             | <u>11,003,790</u>                          | <u>(354,878)</u>   | <u>(8,977)</u>    | <u>10,639,935</u>             |
| Governmental Activities Capital Assets, Net | <u>\$11,204,942</u>                        | <u>(\$354,878)</u> | <u>(\$8,977)</u>  | <u>\$10,841,087</u>           |

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

|                                    |                  |
|------------------------------------|------------------|
| Instruction:                       |                  |
| Regular                            | \$83,883         |
| Special                            | 3,370            |
| Vocational                         | 2,466            |
| Support Services:                  |                  |
| Pupil                              | 6,765            |
| Instructional Staff                | 1,456            |
| Administration                     | 7,401            |
| Fiscal                             | 2,111            |
| Business                           | 4,788            |
| Operation and Maintenance of Plant | 12,820           |
| Pupil Transportation               | 100,436          |
| Central                            | 507              |
| Non-Instructional Services         | 17,397           |
| Extracurricular                    | 13,429           |
| Capital Outlay                     | 280,778          |
| Total Depreciation Expense         | <u>\$537,607</u> |

**10. RESTRICTED ASSETS**

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

|  | <u>General<br/>Fund</u> |
|--|-------------------------|
| Assets:                                    |                         |
| Equity in Pooled Cash and Cash Equivalents | \$86,947                |

**11. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% co-insured.

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. RISK MANAGEMENT – (Continued)**

Central Local School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool (see Note 18). Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. The District contracts for education general liability, employee benefits liability, employer's liability, stop gap, errors and omissions liability, and employment practices with OSP.

Insurance coverage provided includes the following:

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

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

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams counties and other eligible governmental entities (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, 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.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. RISK MANAGEMENT – (Continued)**

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (see Note 18). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The District paid \$1,053 in premiums during the 2006 fiscal year.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premium, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**12. DEFINED PENSION BENEFIT PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$141,721, \$146,629, and \$114,237, respectively; 55.59 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$85,236.



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**12. DEFINED PENSION BENEFIT PLANS – (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$636,489, \$597,281, and \$582,916, respectively; 85.55 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$99,064.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**12. DEFINED PENSION BENEFIT PLANS – (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**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 \$48,961 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.

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 \$62,664.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**14. COMPENSATED ABSENCES**

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rated basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-third of the accumulated sick leave to a maximum of 59 days, except that those employees who elect to retire at the earliest permissible retirement date shall be paid one-third of the accumulated sick leave to a maximum of 102 days.

**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<br/>6/30/05</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at<br/>6/30/06</u> | <u>Due Within<br/>One Year</u> |
|--|-------------------------------|------------------|-------------------|-------------------------------|--------------------------------|
| General Obligation Bonds                         | \$2,140,000                   |                  | \$(85,000)        | \$2,055,000                   | \$90,000                       |
| General Obligation Capital<br>Appreciation Bonds | 121,021                       | \$15,890         |                   | 136,911                       |                                |
| Employee Benefit Obligations                     | 958,230                       | 22,220           |                   | 980,450                       |                                |
| <b>Total</b>                                     | <u>\$3,219,251</u>            | <u>\$38,110</u>  | <u>\$(85,000)</u> | <u>\$3,172,361</u>            | <u>\$90,000</u>                |

The scheduled payments of principal and interest on the general obligation bonds as of June 30, 2006 are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u>   | <u>Interest</u>    | <u>Total</u>       |
|------------------------------------|--------------------|--------------------|--------------------|
| 2007                               | \$90,000           | \$112,688          | \$202,688          |
| 2008                               | 95,000             | 108,039            | 203,039            |
| 2009                               | 100,000            | 103,090            | 203,090            |
| 2010                               | 105,000            | 97,836             | 202,836            |
| 2011                               | 110,000            | 92,272             | 202,272            |
| 2012-2016                          | 526,911            | 334,550            | 861,461            |
| 2017-2021                          | 800,000            | 223,962            | 1,023,962          |
| 2022-2023                          | 365,000            | 20,844             | 385,844            |
| <b>Total</b>                       | <u>\$2,191,911</u> | <u>\$1,093,281</u> | <u>\$3,285,192</u> |

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**15. LONG-TERM OBLIGATIONS – (Continued)**

The Current Interest bonds shall bear interest at the rates per year and will mature in the principal amounts and on the principal payment dates as follows:

| <u>Principal Payment Due</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|------------------------------|-------------------------|----------------------|
| December 1, 2006             | 90,000                  | 5.00%                |
| December 1, 2007             | 95,000                  | 5.05%                |
| December 1, 2008             | 100,000                 | 5.10%                |
| December 1, 2009             | 105,000                 | 5.15%                |
| December 1, 2010             | 110,000                 | 5.20%                |

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

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

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

The Current Interest bonds shall be subject to redemption prior to maturity as provided in the Bonds Resolution and above, except that the bonds maturing on or after December 1, 2010, either in whole at any time or in part on any interest payment date, in integral multiples of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**15. LONG-TERM OBLIGATIONS – (Continued)**

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

| <u>Principal<br/>Payment Date</u> | <u>Aggregate<br/>Principal Amount</u> | <u>Maturity<br/>Amount</u> | <u>Compounding<br/>Rate</u> |
|-----------------------------------|---------------------------------------|----------------------------|-----------------------------|
| December 1, 2011                  | \$22,286                              | \$120,000                  | 15%                         |
| December 1, 2012                  | 19,285                                | 120,000                    | 15%                         |

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

**16. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

|  | <u>Textbooks</u> | <u>Capital<br/>Acquisition</u> |
|--|------------------|--------------------------------|
| Set-aside Cash Balance as of June 30, 2005 | \$66,268         |                                |
| Current Year Set-aside Requirement         | 162,890          | \$162,890                      |
| Current Year Offsets                       |                  | (56,743)                       |
| Qualifying Disbursements                   | (168,036)        | (80,322)                       |
| Cash Balance Carried Forward to FY 2007    | <u>\$61,122</u>  | <u>\$25,825</u>                |
| Total Restricted Assets                    | <u>\$61,122</u>  | <u>\$25,825</u>                |

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**17. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$42,822. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (the Council) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,500. 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.

**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. Northwest Ohio Special Education Regional Research Council**

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED 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 \$1,194,485. 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 \$1,053 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 financial 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, 2004 and 2003 (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   |

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, [www.ohioschoolplan.org](http://www.ohioschoolplan.org).

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**19. INTERFUND TRANSFERS**

During the year ended June 30, 2006, the Classroom Facilities Building Fund (No. 010) transferred \$1,576 to the General Fund. This transfer was made to return the remaining balance of the fund upon completion of the construction project of the new elementary building after it was split between the Ohio School Facilities Commission and the District in proportion to their respective contributions to the fund.

**20. CONTINGENCIES**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**B. Litigation**

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





# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Central Local School District, Defiance County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 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 opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### Compliance and Other Matters

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

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Central Local School District  
Defiance County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
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We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

January 23, 2007



**Mary Taylor, CPA**  
Auditor of State

**CENTRAL LOCAL SCHOOL DISTRICT**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 8, 2007**