



**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Dave Yost • Auditor of State

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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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, 2010, 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.

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash 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, 2010, and the respective changes in cash financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, for the year ended June 30, 2010, the Districted ceased reporting in accordance with accounting principles generally accepted in the United States of America and began reporting on the cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 14, 2011

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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, 2010. 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 2010 are as follows:

In total, net assets increased \$283,061.

General receipts accounted for \$9,953,428, or 86 percent of all receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for \$1,621,721, or 14 percent of total receipts of \$11,575,149.

The District's major fund is the General Fund. The General Fund had \$9,719,441 in receipts and other financing sources and \$9,606,002 in disbursements. The General Fund's balance increased \$113,439 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 – cash basis and the statement of activities - cash basis 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, both reported on the cash basis, reflect how the District did financially during fiscal year 2010. These statements are reported on the cash basis of accounting, which reflects receipts and disbursements 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, 2010
Unaudited
(Continued)**

In the cash basis statement of net assets and the statement of activities, the District discloses a single type of activity, its governmental activities, which includes 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 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 yearend for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2010 compared to fiscal year 2009.

Table 1		
Net Assets		
Governmental Activities		
	2010	2009
<u>Assets:</u>		
Cash and Cash Equivalents	\$3,125,093	\$2,842,032
 <u>Net Assets:</u>		
Restricted	1,278,822	974,958
Unrestricted	1,846,271	1,867,074
Total	3,125,093	\$2,842,032

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited
(Continued)**

The Net Assets increased in 2010, due to the increase in federal funds that were unspent as the fiscal year end.

Table 2 reflects the changes in net assets for fiscal year 2010. This is the first year of implementation of the cash basis of accounting. Comparative figures are not available for fiscal year 2009. A comparative analysis will be provided in future years when prior year information is available

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

	2010
<u>Receipts:</u>	
Program Receipts:	
Charges for Services and Sales	\$520,105
Operating Grants, Contributions and Interest	1,101,616
Total Program Receipts	<u>1,621,721</u>
General Receipts:	
Property Taxes	2,591,468
Income Taxes	743,187
Grants and Entitlements	6,533,035
Gifts and Donations	36,558
Investment Earnings	23,486
Miscellaneous	21,144
Proceeds from Sale of Capital Assets	4,549
Other Financing Sources	1
Total General Receipts	<u>9,953,428</u>
Total Receipts	<u>11,575,149</u>
<u>Disbursements:</u>	
Instruction	6,310,934
Support Services:	
Pupils	551,445
Instructional Staff	241,348
Board of Education	28,497
Administration	958,666
Fiscal	263,090
Business	68,820
Operation and Maintenance of Plant	702,015
Pupil Transportation	764,543
Central	184,459
Non-Instructional	472,514
Extracurricular Activities	473,701
Capital Outlay	69,220
Principal	105,000
Interest and Fiscal Charges	<u>97,836</u>
Total Disbursements	<u>11,292,088</u>
Increase in Net Assets	<u>\$283,061</u>

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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. This is the first year of implementation of the cash basis of accounting. Comparative figures are not available for fiscal year 2009. A comparative analysis will be provided in future years when prior year information is available.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
	2010	2010
Instruction	\$6,310,934	\$5,915,276
Support Services:		
Pupils	551,445	494,612
Instructional Staff	241,348	158,431
Board of Education	28,497	28,497
Administration	958,666	908,729
Fiscal	263,090	263,090
Business	68,820	68,820
Operation and Maintenance of Plant	702,015	702,015
Pupil Transportation	764,543	352,898
Central	184,459	177,338
Non-Instructional	472,514	954
Extracurricular Activities	473,701	327,651
Capital Outlay	69,220	69,220
Principal	105,000	105,000
Interest and Fiscal Charges	97,836	97,836
Total Expenses	\$11,292,088	\$9,670,367

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 93 percent of instruction activities are supported through taxes and other general receipts. For all governmental activities, support from general receipts is 86 percent. The remaining 14 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 cash basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had receipts and other financing sources of \$11,575,149 and disbursements of \$11,292,088. The net positive change of \$283,061 in fund balance for the year indicates that the District has able to meet current costs.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited
(Continued)**

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 2010, the District amended its General Fund budget as needed.

Final disbursements and other financing uses were budgeted at \$11,334,289 while actual were \$9,748,834. The \$1,585,455 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected disbursements arise during the fiscal year.

Debt Administration

Debt

At June 30, 2010, the District had \$1,865,471 in school improvement general obligation bonds for building improvements.

At June 30, 2010, the District's overall legal debt margin was \$7,664,543, with an un-voted debt margin of \$105,889.

Current Issues

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

The District is currently operating in the second year of the state biennium budget. 34 percent of District revenue sources is from local funds, 57 percent is from state funds, and the remaining 9 percent is from federal funds. The total expenditure per pupil was calculated at \$9,683.

In May 2007, the District passed a five-year emergency levy to generate \$615,000 annually. 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. Additionally, the state of the overall economy and projected shortfalls in the State budget add uncertainty as to future levels of state educational assistance. A new evidence based model (EBM) for school funding was introduced in the current state budget. However, current state funding to the district is limited based on the prior year's funding.

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 Ted Penner, Treasurer, Central Local School District, 06289 U S Route 127 N, Sherwood, Ohio 43556-9735.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets - Cash Basis
June 30, 2010**

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ <u><u>3,125,093</u></u>
NET ASSETS:	
Restricted for Debt Service	128,220
Restricted for Other Purposes	1,150,602
Unrestricted	<u>1,846,271</u>
Total Net Assets	\$ <u><u>3,125,093</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2010**

	Program Cash Receipts			Net(Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 4,411,669	\$ 56,414	\$ 127,869	\$ (4,227,386)
Special	959,647		161,055	(798,592)
Vocational	209,451		50,320	(159,131)
Adult/Continuing	19,874			(19,874)
Student Intervention Services	139,005			(139,005)
Other	571,288			(571,288)
Support Services:				
Pupils	551,445		56,833	(494,612)
Instructional Staff	241,348		82,917	(158,431)
Board of Education	28,497			(28,497)
Administration	958,666	44,937	5,000	(908,729)
Fiscal	263,090			(263,090)
Business	68,820			(68,820)
Operation and Maintenance of Plant	702,015			(702,015)
Pupil Transportation	764,543		411,645	(352,898)
Central	184,459		7,121	(177,338)
Operation of Non-Instructional Services	472,514	272,704	198,856	(954)
Extracurricular Activities	473,701	146,050		(327,651)
Capital Outlay	69,220			(69,220)
Debt Service:				
Principal	105,000			(105,000)
Interest and Fiscal Charges	97,836			(97,836)
Totals	\$ 11,292,088	\$ 520,105	\$ 1,101,616	(9,670,367)

General Receipts:

Taxes:		
Property Taxes, Levied for General Purposes		2,368,324
Property Taxes, Levied for Debt Service		183,213
Property Taxes, Levied for Other		39,931
Income Taxes		743,187
Grants and Entitlements not Restricted to Specific Programs		6,533,035
Gifts and Donations		36,558
Investment Earnings		23,486
Miscellaneous		21,144
Proceeds from Sale of Capital Assets		4,549
Other Financing Sources		1
Total General Receipts		9,953,428
Change in Net Assets		283,061
Net Assets Beginning of Year		2,842,032
Net Assets End of Year		\$ 3,125,093

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2010**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,846,271	\$ 941,566	\$ 2,787,837
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	337,256		337,256
Total Assets	\$ 2,183,527	\$ 941,566	\$ 3,125,093
Fund Balances			
Reserved:			
Reserved for Encumbrances	142,832	73,678	216,510
Reserved for Textbooks and Instructional Materials	294,652		294,652
Reserved for Capital Improvements	42,604		42,604
Unreserved, Undesignated, Reported in:			
General Fund	1,703,439		1,703,439
Special Revenue Funds		739,668	739,668
Debt Service Funds		128,220	128,220
Total Liabilities and Fund Balances	\$ 2,183,527	\$ 941,566	\$ 3,125,093

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2010**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:			
Property and Other Local Taxes	\$ 2,368,324	\$ 223,144	\$ 2,591,468
Income Tax	743,187		743,187
Intergovernmental	6,575,726	1,058,925	7,634,651
Interest	23,046	440	23,486
Tuition and Fees		54,122	54,122
Rent	595		595
Extracurricular Activities		181,169	181,169
Gifts and Donations	250	36,308	36,558
Customer Sales and Services	419	283,800	284,219
Miscellaneous	3,345	17,799	21,144
Total Cash Receipts	<u>9,714,892</u>	<u>1,855,707</u>	<u>11,570,599</u>
CASH DISBURSEMENTS:			
Current:			
Instruction:			
Regular	4,234,819	176,850	4,411,669
Special	726,951	232,696	959,647
Vocational	209,451		209,451
Adult/Continuing	19,874		19,874
Student Intervention Services	139,005		139,005
Other	571,288		571,288
Support Services:			
Pupils	490,300	61,145	551,445
Instructional Staff	158,078	83,270	241,348
Board of Education	28,497		28,497
Administration	890,835	67,831	958,666
Fiscal	258,560	4,530	263,090
Business	68,820		68,820
Operation and Maintenance of Plant	702,015		702,015
Pupil Transportation	634,086	130,457	764,543
Central	165,497	18,962	184,459
Operation of Non-Instructional Services		472,514	472,514
Extracurricular Activities	284,035	189,666	473,701
Capital Outlay	23,891	45,329	69,220
Debt Service:			
Principal		105,000	105,000
Interest		97,836	97,836
Total Disbursements	<u>9,606,002</u>	<u>1,686,086</u>	<u>11,292,088</u>
Excess of Cash Receipts Over Cash Disbursements	<u>108,890</u>	<u>169,621</u>	<u>278,511</u>
OTHER FINANCING SOURCES AND USES:			
Proceeds from Sale of Capital Assets	4,549		4,549
Other Financing Sources		1	1
Total Other Financing Sources and Uses	<u>4,549</u>	<u>1</u>	<u>4,550</u>
Net Change in Fund Balances	113,439	169,622	283,061
Fund Balance at Beginning of Year	2,070,088	771,944	2,842,032
Fund Balance at End of Year	<u>\$ 2,183,527</u>	<u>\$ 941,566</u>	<u>\$ 3,125,093</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Receipts, Disbursements and Changes in Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
RECEIPTS:				
Property and Other Local Taxes	\$ 2,310,000	\$ 2,208,000	\$ 2,368,324	\$ 160,324
Income Tax	800,000	800,000	743,187	(56,813)
Intergovernmental	6,337,000	6,342,500	6,575,726	233,226
Interest	60,000	60,000	23,046	(36,954)
Rent	1,000	1,000	595	(405)
Gifts and Donations	24,000	24,000	250	(23,750)
Customer Sales and Services	400	400	419	19
Miscellaneous	5,200	5,200	3,345	(1,855)
Total Receipts	<u>9,537,600</u>	<u>9,441,100</u>	<u>9,714,892</u>	<u>273,792</u>
DISBURSEMENTS:				
Current:				
Instruction:				
Regular	4,302,405	4,445,084	4,247,198	197,886
Special	999,239	896,605	730,883	165,722
Vocational	218,799	253,516	216,988	36,528
Adult/Continuing	25,000	25,000	19,874	5,126
Student Intervention Services	114,882	163,971	139,005	24,966
Other	549,000	574,590	573,983	607
Support Services:				
Pupils	517,790	522,785	491,581	31,204
Instructional Staff	161,440	178,101	158,963	19,138
Board of Education	29,521	41,356	37,571	3,785
Administration	1,234,423	1,297,217	904,294	392,923
Fiscal	267,308	269,379	260,197	9,182
Business	58,870	96,323	79,997	16,326
Operation and Maintenance of Plant	706,224	795,682	749,742	45,940
Pupil Transportation	664,871	724,425	656,030	68,395
Central	159,343	203,514	169,656	33,858
Extracurricular Activities	308,691	324,168	286,601	37,567
Capital Outlay	73,600	82,044	26,271	55,773
Total Disbursements	<u>10,391,406</u>	<u>10,893,760</u>	<u>9,748,834</u>	<u>1,144,926</u>
Excess of Receipts Over Disbursements	<u>(853,806)</u>	<u>(1,452,660)</u>	<u>(33,942)</u>	<u>1,418,718</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Capital Assets	1,000	1,000	4,549	3,549
Transfers Out	(300,000)	(300,000)		300,000
Other Financing Uses	(769,072)	(140,529)		140,529
Total Other Financing Sources and Uses	<u>(1,068,072)</u>	<u>(439,529)</u>	<u>4,549</u>	<u>444,078</u>
Net Change in Fund Balances	<u>(1,921,878)</u>	<u>(1,892,189)</u>	<u>(29,393)</u>	<u>1,862,796</u>
Fund Balance at Beginning of Year	1,892,842	1,892,842	1,892,842	
Prior Year Encumbrances Appropriated	177,246	177,246	177,246	
Fund Balance at End of Year	<u>\$ 148,210</u>	<u>\$ 177,899</u>	<u>\$ 2,040,695</u>	<u>\$ 1,862,796</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2010**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>5,248</u>	\$ <u>50,999</u>
Liabilities:		
Current Liabilities:		
Undistributed Monies		\$ <u>50,999</u>
Net Assets:		
Held in Trust for Scholarships	\$ <u>5,248</u>	

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2010**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>63</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>200</u>
Change in Net Assets	(137)
Net Assets Beginning of Year	<u>5,385</u>
Net Assets End of Year	<u>\$ <u>5,248</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, 2010**

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 64 non-certified and 80 certified full-time teaching personnel who provide services to 1,205 students and other community members.

A. Primary Government

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.

B. Component Units

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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District, and are significant in amount to the District. The District does not have any component units.

C. Jointly Governed Organizations and Purchasing Pools

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 Education Regional System, the Northern Buckeye Education Council's Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial 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.

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

2. Fund Financial Statements

During the fiscal 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 report more detailed information about the District. The focus of governmental financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are divided into two categories, governmental and fiduciary.

1. Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The General Fund is the District's major governmental fund:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. Fiduciary Funds

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

C. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

The budgetary process is prescribed by provision of the Ohio Revised Code and entails the preparation of budgetary documents within established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund, function, and object level for all funds.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal 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.

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. 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 2010, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2010. 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, 2010.

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 2010 amounted to \$23,046 of which \$6,797 was interest 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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Inventory

The District reports disbursements for inventory when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

I. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements and the purchase of textbooks and instructional materials.

L. Interfund Transactions

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There are no amounts restricted by enabling legislation.

N. Fund Balance Reserves

The District reserves any portion of fund balances which are not available for appropriation or which is legally segregated for a specified future use. Unreserved fund balance indicates that a portion of the fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks and Instructional materials, and capital improvements.

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

A. Change in Basis of Accounting

For 2010, the District ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General Fund	Other Governmental Funds
Fund Balance, June 30, 2009	\$1,475,509	\$736,278
Eliminate Asset Accruals	(2,704,615)	(264,120)
Eliminate Liability Accruals	3,299,194	299,786
Restated Fund Balance, June 30, 2009	\$2,070,088	\$771,944

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY – (Continued)

Governmental Activities Net Assets June 30, 2009	\$9,022,342
Eliminate Government-Wide Financial Statement Adjustments:	
Material and Supplies Inventory	(49,007)
Accrued Interest Receivable	(1,371)
Accounts Receivable	(419)
Intergovernmental Receivable	(25,446)
Prepaid Items	(5,199)
Taxes Receivable	(2,563,712)
Income Taxes Receivable	(320,381)
Capital Assets	(9,814,912)
Accounts Payable	50,732
Accrued Wages and Benefits	789,927
Intergovernmental Payable	229,157
Deferred Revenue	2,229,177
Long Term Liabilities	3,301,144
Adjusted Governmental Activities Net Assets June 30, 2009	\$2,842,032

4. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

5. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$142,832 in the General Fund.

6. DEPOSITS AND INVESTMENTS

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

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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;
3. Written repurchase agreements in the securities listed above provided that the market value of the agreement be 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. 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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,046,928 of the District's bank balance of \$1,934,306 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, 2010, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities Less than One Year</u>
STAR Ohio	<u>\$1,292,652</u>	<u>\$1,292,652</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 two percent and be marked to market daily.

Credit Risk – STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

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 percent of the interim monies available for investment at any one time. The District's investment in STAR Ohio represents 100 percent of the District's total investments.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes for 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, 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 2010 were levied after April 1, 2009, on the assessed values as of December 31, 2008, 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 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The District receives property taxes from Defiance and Williams Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$94,786,960	91%	\$96,266,570	91%
Industrial/Commercial	3,087,100	3%	3,050,820	3%
Public Utility	6,600,450	6%	6,571,650	6%
Total Assessed Value	<u>\$104,474,510</u>	<u>100%</u>	<u>\$105,889,040</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$28.50		\$28.50	

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. 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.

9. 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.

Insurance coverage provided through Phelan Insurance Agency 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	300,000
Medical Expense – Any One Person/Each Accident	15,000
General Aggregate Limit	2,000,000
Products – Completed Operations Limit	2,000,000
Employee Benefits Liability (\$2,500 deductible):	
Each Offense	2,000,000
Aggregate Limit	3,000,000
Employer’s Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	2,000,000
Errors and Omissions Liability (\$1,000 deductible):	
Per Occurrence	2,000,000
Aggregate Limit	2,000,000
Auto Insurance Liability:	
Each Accident	1,000,000

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.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

9. RISK MANAGEMENT (Continued)

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 17). The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (see Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The District paid \$1,171 in premiums during the 2010 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.

10. DEFINED PENSION BENEFIT PLANS

A. School Employee Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org, under Forms and Publications.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

10. DEFINED PENSION BENEFIT PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District 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 2010, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$129,878, \$127,842, and \$131,403, respectively; 53 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

10. DEFINED PENSION BENEFIT PLANS (Continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were 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 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$630,075, \$628,030, and \$664,232, respectively; 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 Retirement System. As of June 30, 2010, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

11. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

11. POSTEMPLOYMENT BENEFITS – (Continued)

The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$59,438, \$76,964, and \$59,964 respectively; 53 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008 was \$10,716, \$10,548 and \$9,468, respectively; 53 percent has been contributed for fiscal year 2010 and 100 percent for fiscal year 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$48,467, \$48,310, and \$51,095 respectively; 85 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

12. 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 60 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 103 days.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. LONG-TERM OBLIGATIONS

During the year ended June 30, 2010, the following changes occurred in obligations reported in the Government -Wide Financial Statements:

	<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/10</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$1,770,000		\$105,000	\$1,665,000	\$110,000
General Obligation Capital Appreciation Bonds	184,581	\$15,890		200,471	
Total	<u>\$1,954,581</u>	<u>\$15,890</u>	<u>\$105,000</u>	<u>\$1,865,471</u>	<u>\$110,000</u>

The scheduled payments of principal and interest on the general obligation bonds as of June 30, 2010 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$110,000	\$92,273	\$202,273
2012	103,713	73,127	176,840
2013	96,758	66,171	162,929
2014	125,000	85,819	210,819
2015	130,000	78,487	208,487
2016-2020	760,000	268,813	1,028,813
2021-2023	540,000	46,862	586,862
Total	<u>\$1,865,471</u>	<u>\$711,552</u>	<u>\$2,577,023</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.

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, 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:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

<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, 2011, either in whole at any time or in part on any interest payment date, in integral multiples of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

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

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

14. LEASES

The District leases three school buses under noncancelable leases. The District disbursed \$53,365 to pay lease costs for the year ended June 30, 2010. Future lease payments amount to \$58,160 for fiscal year 2011, which is the final year of the lease.

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2009	\$203,014	
Current Year Set-aside Requirement	176,090	\$176,090
Current Year Qualifying Expenditures	(84,452)	(84,742)
Current Year Offsets		(48,744)
Cash Balance Carried Forward to FY 2011	\$294,652	\$42,604
Total Restricted Assets	\$294,652	\$42,604

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$56,131. 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. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Four County Career Center

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

D. Educational Regional Service System

The Educational Regional Services System (System) is a jointly governed organization among the school districts located in Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam Sandusky, Seneca, Van Wert, Williams, and Wood Counties. House Bill 115 established the System and required the creation of a coordinated, integrated, and aligned system to support state and school district efforts to improve school effectiveness and student achievement.

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and 5 specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resource centers, data acquisition sites, and other regional service providers. The 34 member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The Board's duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood, Toledo, Ohio 43620.

17. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$1,156,985. 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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

17. GROUP PURCHASING POOLS (Continued)

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 \$1,171 to the WCGRP to cover the costs of administering the program.

18. 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, 2010.

B. Litigation

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education.</i>			
National School Lunch Program:			
Cash Assistance	10.555	\$ 194,846	\$ 194,846
Non-Cash Assistance (Food Distribution)	10.555	<u>87,229</u>	<u>87,229</u>
Total U.S. Department of Agriculture		<u>282,075</u>	<u>282,075</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education.</i>			
<u>Title I, Part A Cluster:</u>			
Title I Grants to Local Educational Agencies - 2010	84.010	9,237	91,396
Title I Grants to Local Educational Agencies - 2009	84.010	16,056	330
Title I Grants to Local Educational Agencies - 2008	84.010		250
Total Title I Grants to Local Educational Agencies		<u>25,293</u>	<u>91,976</u>
ARRA - Title I Grants to Local Educational Agencies	84.389		4,960
Total Title I, Part A Cluster		<u>25,293</u>	<u>96,936</u>
Safe and Drug Free Schools and Communities State Grants	84.186	262	2,295
State Grants for Innovative Programs	84.298	(80)	
Education Technology State Grants	84.318	83	
Improving Teacher Quality State Grants - 2009	84.367	3,527	35,134
Improving Teacher Quality State Grants - 2010	84.367	<u>7,401</u>	
Total Improving Teacher Quality Grants		<u>10,928</u>	<u>35,134</u>
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	<u>375,360</u>	<u>130,457</u>
Total United States Department of Education		<u>411,846</u>	<u>264,822</u>
Total		<u>\$ 693,921</u>	<u>\$ 546,897</u>

The accompanying notes are an integral part of this schedule.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.



Dave Yost • 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2011, wherein, we noted the District changed its accounting basis from accounting principles generally accepted in the United States of America to the cash basis. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 14, 2011.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 14, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Central Local School District, Defiance County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in findings 2010-002 and 2010-003 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable activities, allowable costs, and cash management applicable to its State Fiscal Stabilization Fund major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Central Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-002 and 2010-003 to be material weaknesses.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

January 14, 2011

CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	National School Lunch Program CFDA 10.555, and State Fiscal Stabilization Fund CFDA 84.394
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

<i>Finding Number</i>	2010-001
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Noncompliance Citations

Ohio Revised Code § 117.38 provides each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Administrative Code § 117-2-03(B), which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America.

The District prepares its financial statements in accordance with the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its financial statements in accordance with generally accepted accounting principles.

Officials' Response: We did not receive a response from Officials to this finding

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2010-002
CFDA Title and Number	State Fiscal Stabilization Fund – Education Grant State Grants, Recovery Act, CFDA #84.394
Federal Award Number / Year	S394A090036/ 2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost and Material Weakness

American Recovery and Reinvestment Act, Title XIV, Division A, Sections 14003 (b) and (c) state a local educational agency (LEA) may not use funds received under this title for:

- (1) Payment of maintenance costs;
- (2) Stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public;
- (3) Purchases or upgrades of vehicles; or
- (4) Improvement of stand-alone facilities whose purpose is not the education of children, including central office administration or operations or logistical support facilities; or
- (5) School modernization, renovation, or repair of that is inconsistent with State law.

The District spent \$37,587.97 in bus repairs and maintenance during fiscal year 2010, which is an unallowable program activity/cost. Since ARRA legislation prohibits maintenance costs to be charged to the SFSF Federal program, these are considered a questionable use of the funds for this program.

There is a possibility these expenditures may be disqualified and subject to refund.

In order to help ensure proper accountability and mitigate the risk of improper expenditure of ARRA awards, we recommend the District implement corrective action to resolve these questioned expenditures.

Furthermore, we recommend District management officials make sure monitoring controls are operating effectively to properly manage, monitor, and account for Federal awards. In particular, this should include, but is not limited to, management reviewing allowable activities and costs/cost principles which SFSF funds can be spent and subsequently review and monitor expenditures charged to the SFSF federal program to make sure they are for an allowable use of the funds of the Federal program.

Officials' Response: Management understood the regulations as allowing all transportation operating expenses (including bus repairs) to be covered by these funds. Further, these expenditures were reported quarterly as "bus repairs" and were never questioned. We will consult with the Ohio Department of Education (ODE) to resolve this issue.

Finding Number	2010-003
CFDA Title and Number	State Fiscal Stabilization Fund (SFSF) – Education Grant State Grants, Recovery Act, CFDA 84.394
Federal Award Number / Year	S394A090036/ 2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness

34 CFR 80.20 (b)(7) states in part: "When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements." The Ohio Department of Education (ODE) subsequently stated local educational agencies must have an internal control system in place to ensure advance SFSF payments are spent timely (i.e., within 30 days).

Interest should not be earned on these funds. If interest is earned on the funds, the interest earned must be remitted to the US Department of Education via a check sent to the Ohio Department of Education (ODE). ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity may be retained under 34 CFR 80.21 for administrative expenses.

The District began receiving their SFSF funding on July 10, 2009. The first disbursement of SFSF funds was not made until September 10, 2009. From the time of the first payment of SFSF monies was received to the end of fiscal year 2010, the District maintained ongoing cash fund balances ranging from a low of \$7,282 on July 10, 2009 to a high of \$244,903 on June 30, 2010, thus indicating the SFSF monies were not being spent timely (i.e. within 30 days) as required.

Furthermore, the District earned \$695 interest from the SFSF cash advances or \$595 in excess of the amount allowed to be retained from administrative expenses. The District has not remitted the excess amount of interest to the Ohio Department of Education as required.

We recommend the District monitor SFSF available cash fund balances to ensure SFSF advances are spent timely and also remit their excess interest amount to the Ohio Department of Education.

Officials' Response: Management attempted to try to spend the SFSF funds in the manner most beneficial to the District and believed that this was allowed by the regulations. All remaining SFSF funds will be spent in fiscal year 2011.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
June 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-002	Management will consult with the Ohio Department of Education to resolve the issue.	6/30/11	Ted Penner
2010-003	The District will spend all remaining SFSF funds in fiscal year 2011. Management will consult with the Ohio Department of Education regarding the interest issue.	6/30/11	Ted Penner

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Dave Yost • 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, 2011**