



**Auditor of State  
Betty Montgomery**



**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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**Auditor of State  
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**INDEPENDENT ACCOUNTANTS' REPORT**

Arcadia Local School District  
Hancock County  
19033 State Route 12  
Arcadia, Ohio 44804-9714

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, as of June 30 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

April 5, 2005

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

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

**Highlights**

Highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$17,572, or a little over 2 percent, and an insignificant change from the prior fiscal year.
- General revenues accounted for 74 percent of total revenues and reflect the School District's significant dependence on property taxes and unrestricted state entitlements.
- The School District continued to receive parity aid as part of the State foundation program in fiscal year 2004. Parity aid is distributed to school districts based on the valuation of real and personal property within their boundaries. Prior to fiscal year 2003, the use of this aid was restricted to funding additional programs but in fiscal year 2003, these restrictions were lifted. The main component of the State foundation allocation was based on the three-year average daily membership (ADM) of students enrolled during the first week of October. For the past several years, the ADM has been declining. With the changes in State law approved as part of House Bill 95, the State funding of schools is no longer based on the three-year average ADM, but solely on the actual ADM. This has had a negative impact on our funding.
- The School District has experienced a decline in property tax revenues because of Senate Bill 3 and Senate Bill 287 which reduced the assessment rate for personal property of electric and gas utilities. The School District is partially reimbursed for this decline in revenue by the State. The reimbursement for fiscal year 2004 was \$53,609 less than fiscal year 2003.

**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 Arcadia Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Arcadia Local School District, the General Fund and Permanent Improvement capital projects fund are the most significant funds.

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

**Reporting the School District as a Whole**

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

These statements report the School 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 School 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 School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities which include instruction, support services, non-instructional services, and extracurricular activities.

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

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement capital projects fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School 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 School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

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



**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

Table 1  
Net Assets

	Governmental Activities	
	2004	2003
<b>Assets:</b>		
Current and Other Assets	\$ 2,403,512	\$ 2,573,722
Capital Assets, Net	1,530,559	1,342,297
<i>Total Assets</i>	<u>3,934,071</u>	<u>3,916,019</u>
<b>Liabilities:</b>		
Current and Other Liabilities	2,826,186	2,864,194
Long-Term Liabilities	366,461	327,973
<i>Total Liabilities</i>	<u>3,192,647</u>	<u>3,192,167</u>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	1,156,547	874,211
Restricted	259,095	389,489
Unrestricted (Deficit)	(674,218)	(539,848)
<i>Total Net Assets</i>	<u>\$ 741,424</u>	<u>\$ 723,852</u>

Total assets changed very little from the prior fiscal year, a less than 1 percent change; however, there were changes within the asset categories identified above worth mentioning. Current and other assets reflect a moderate decrease of 6 percent; however, cash and cash equivalents decreased significantly, over 54 percent. A decrease in foundation revenues and an increase in salaries contributed to a portion of the decrease in cash balances. The effect of this decrease is also reflected in the increase in the deficit unrestricted net assets. Cash resources used for the installation of an elevator, for classroom lighting, and for furnace improvements also reduced the cash balances. The effect of this spending is offset by the increase reflected in both capital assets and invested in capital assets.

Total liabilities increased by only \$480, which is basically no change from the prior fiscal year. Principal payments on tax anticipation notes contributed to the reduction in current and other liabilities while a greater liability for compensated absences affected long-term liabilities.

Table 2 reflects the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

Table 2  
Change in Net Assets

	Governmental Activities <u>2004</u>
<b>Revenues:</b>	
Program Revenues	
Charges for Services	\$ 840,668
Operating Grants, Contributions, and Interest	430,711
Capital Grants, Contributions, and Interest	<u>6,320</u>
<i>Total Program Revenues</i>	<u>1,277,699</u>
General Revenues	
Property Taxes Levied for General Purposes	1,755,681
Property Taxes Levied for Permanent Improvements	181,580
Grants and Entitlements	1,713,928
Interest	4,732
Gifts and Donations	21,225
Miscellaneous	<u>45,309</u>
<i>Total General Revenues</i>	<u>3,722,455</u>
<i>Total Revenues</i>	<u>5,000,154</u>
<b>Expenses</b>	
Instruction:	
Regular	2,245,066
Special	411,722
Vocational	242,191
Support Services:	
Pupils	168,839
Instructional Staff	193,091
Board of Education	17,946
Administration	461,595
Fiscal	134,820
Operation and Maintenance of Plant	416,397
Pupil Transportation	273,111
Central	1,439
Non-Instructional Services	187,800
Extracurricular Activities	212,610
Interest and Fiscal Charges	<u>15,955</u>
<i>Total Expenses</i>	<u>4,982,582</u>
<i>Increase in Net Assets</i>	<u>\$ 17,572</u>

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

Program revenues only represent 26 percent of total revenues and primarily consist of tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues.

General revenues are made up almost entirely of property taxes and unrestricted state entitlements.

The major program expenses for governmental activities are for instruction, which accounts for over 58 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for over 13 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 8 percent. Therefore, over 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

As can be seen, these costs are significantly funded (74 percent) from property taxes and unrestricted grants and entitlements, that being State foundation resources. With the voters of the School District approving the four-year emergency levy in March 2004, our reliance on local property taxes will continue, especially if our enrollment numbers continue to decline.

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, 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. Comparisons to fiscal year 2003 have not been made since they are not available.

Table 3  
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$ 2,245,066	\$ 1,527,830
Special	411,722	146,823
Vocational	242,191	216,767
Support Services:		
Pupils	168,839	163,839
Instructional Staff	193,091	193,091
Board of Education	17,946	17,946
Administration	461,595	461,595
Fiscal	134,820	134,820
Operation and Maintenance of Plant	416,397	414,851
Pupil Transportation	273,111	268,337
Central	1,439	1,439
Non-Instructional Services	187,800	1,462
Extracurricular Activities	212,610	140,128
Interest and Fiscal Charges	15,955	15,955
<i>Total Expenses</i>	<b>\$ 4,982,582</b>	<b>\$ 3,704,883</b>

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately one-third of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. A substantial portion of special instruction costs are provided for through operating grants for special instruction programs. Almost all of the costs of the non-instructional program are paid for with cafeteria sales, state and federal subsidies, and donated commodities for food service operations. A good portion, 34 percent, of extracurricular activities costs are covered by program revenues. These consist of music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Both of the School District's major funds had a significant decrease in fund balance from the prior fiscal year and both funds reflect a deficit fund balance as of fiscal year end. The General Fund reflects a 53 percent decrease in fund balance. Not only are expenditures exceeding revenues for general operating activities within the General Fund, but in fiscal year 2004, the School District was forced to issue tax anticipation notes for cash flow purposes. These notes were repaid within the fiscal year from the General Fund.

The Permanent Improvement Fund reflects a 55 percent decrease in fund balance. Resources were spent for the installation of an elevator, for classroom lighting, and for furnace improvements.

The emergency operating levy approved in March 2004 will help alleviate the deficit fund balances and improve cash flow requirements.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2004, the School District amended its General Fund budget as needed. Note, however, changes in the original and final budgeted amounts for revenues were minor as was the variance between the actual revenues received compared to the final budget. The largest change occurred in intergovernmental revenues. The School District experienced a decrease in personal property tax valuation greater than what was anticipated and thus a decrease in the public utility reimbursements from the State.

Changes from the original budgeted expenditures to the final budgeted amounts were minor. The School District limited spending for field trips and teacher conferences, and implemented some other cost saving measures which resulted in actual expenditures being lower than budgeted amounts.

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal year 2004, the School District had \$1,530,559 invested in capital assets (net of accumulated depreciation), an increase of \$188,262, or 14 percent. As mentioned previously, additions included the installation of an elevator, classroom lighting, and furnace improvements. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

At June 30, 2004, the School District had compensated absences payable, in the amount of \$366,461. Compensated absences will be paid from the General Fund and the Food Service special revenue fund. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

**Current Issues**

The School District had projected a deficit cash position on the five-year forecast for fiscal year 2005. As a result, the Board of Education placed a four-year emergency levy and a 1 percent continuing income tax levy on the March 2004 ballot. The emergency levy will raise approximately \$440,000 annually and the income tax will raise approximately \$584,000 annually. The emergency levy was approved; however, the income tax levy was defeated. The Board of Education then placed a five-year 1 percent income tax levy on the November 2004 ballot, and with community support this levy was approved.

The School District achieved the Ohio Department of Education rating of Excellent for the 2003/2004 school year. The School District has achieved this Excellent rating two out of the last three years.

The School District accepts open enrollment of students from other school districts. During the 2003/2004 school year, one hundred nineteen students from other school districts attended Arcadia Local School under the open enrollment program while only twenty-five students left our school district to attend other schools. This resulted in \$591,922 in open enrollment revenues and \$120,969 in expenses.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School 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 Linda Schubert, Treasurer, Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804.

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**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 333,771
Cash and Cash Equivalents with Fiscal Agents	10,146
Accounts Receivable	2,076
Intergovernmental Receivable	12,314
Prepaid Items	32,689
Inventory Held for Resale	2,423
Materials and Supplies Inventory	4,703
Property Taxes Receivable	2,005,390
Nondepreciable Capital Assets	27,410
Depreciable Capital Assets, Net	<u>1,503,149</u>
<i>Total Assets</i>	<u><u>3,934,071</u></u>
<b>Liabilities:</b>	
Accounts Payable	1,862
Accrued Wages and Benefits Payable	493,308
Intergovernmental Payable	136,585
Accrued Interest Payable	786
Notes Payable	374,012
Matured Bonds Payable	1,000
Matured Interest Payable	13
Deferred Revenue	1,818,620
Long-Term Liabilities:	
Due Within One Year	36,156
Due in More Than One Year	<u>330,305</u>
<i>Total Liabilities</i>	<u><u>3,192,647</u></u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	1,156,547
Restricted For:	
Set Asides	26,301
Debt Service	9,144
Capital Projects	122,900
Other Purposes	100,750
Unrestricted (Deficit)	<u>(674,218)</u>
<i>Total Net Assets</i>	<u><u>\$ 741,424</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 2,245,066	\$ 628,142	\$ 89,094	\$ -	\$ (1,527,830)
Special	411,722	11,430	253,469	-	(146,823)
Vocational	242,191	-	25,424	-	(216,767)
Support Services:					
Pupils	168,839	-	5,000	-	(163,839)
Instructional Staff	193,091	-	-	-	(193,091)
Board of Education	17,946	-	-	-	(17,946)
Administration	461,595	-	-	-	(461,595)
Fiscal	134,820	-	-	-	(134,820)
Operation and Maintenance of Plant	416,397	-	-	1,546	(414,851)
Pupil Transportation	273,111	-	-	4,774	(268,337)
Central	1,439	-	-	-	(1,439)
Non-Instructional Services	187,800	138,349	47,989	-	(1,462)
Extracurricular Activities	212,610	62,747	9,735	-	(140,128)
Interest and Fiscal Charges	15,955	-	-	-	(15,955)
<i>Total Governmental Activities</i>	<u>\$ 4,982,582</u>	<u>\$ 840,668</u>	<u>\$ 430,711</u>	<u>\$ 6,320</u>	<u>(3,704,883)</u>

**General Revenues:**

Property Taxes Levied for General Purposes	1,755,681
Property Taxes Levied for Permanent Improvements	181,580
Grants and Entitlements not Restricted to Specific Programs	1,713,928
Interest	4,732
Gifts and Donations	21,225
Miscellaneous	45,309
<i>Total General Revenues</i>	<u>3,722,455</u>
<i>Change in Net Assets</i>	17,572
Net Assets at Beginning of Year - See Note 3	723,852
<i>Net Assets at End of Year</i>	<u>\$ 741,424</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 62,122	\$ 106,057	\$ 125,063	\$ 293,242
Cash and Cash Equivalents with Fiscal Agents	1,013	-	9,133	10,146
Accounts Receivable	1,833	-	243	2,076
Intergovernmental Receivable	4,184	-	8,130	12,314
Prepaid Items	31,220	-	1,469	32,689
Inventory Held for Resale	-	-	2,423	2,423
Materials and Supplies Inventory	4,243	-	460	4,703
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	40,529	-	-	40,529
Property Taxes Receivable	1,832,200	173,190	-	2,005,390
<b>Total Assets</b>	<b>\$ 1,977,344</b>	<b>\$ 279,247</b>	<b>\$ 146,921</b>	<b>\$ 2,403,512</b>
<b>Liabilities and Fund Balances:</b>				
<u>Liabilities</u>				
Accounts Payable	\$ 1,314	\$ -	\$ 548	\$ 1,862
Accrued Wages and Benefits Payable	467,613	-	25,695	493,308
Intergovernmental Payable	89,046	-	3,456	92,502
Accrued Interest Payable	-	786	-	786
Notes Payable	-	374,012	-	374,012
Matured Bonds Payable	1,000	-	-	1,000
Matured Interest Payable	13	-	-	13
Deferred Revenue	1,697,933	158,691	-	1,856,624
<b>Total Liabilities</b>	<b>2,256,919</b>	<b>533,489</b>	<b>29,699</b>	<b>2,820,107</b>
<u>Fund Balances:</u>				
Reserved for Property Taxes	135,255	14,499	-	149,754
Reserved for Textbooks	26,301	-	-	26,301
Reserved for Bus Purchase	14,228	-	-	14,228
Reserved for Encumbrances	8,985	26,766	12,114	47,865
Unreserved, Reported in:				
General Fund (Deficit)	(464,344)	-	-	(464,344)
Special Revenue Funds	-	-	98,180	98,180
Debt Service Fund	-	-	6,928	6,928
Capital Projects Fund (Deficit)	-	(295,507)	-	(295,507)
<b>Total Fund Balances (Deficit)</b>	<b>(279,575)</b>	<b>(254,242)</b>	<b>117,222</b>	<b>(416,595)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,977,344</b>	<b>\$ 279,247</b>	<b>\$ 146,921</b>	<b>\$ 2,403,512</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

<b>Total Governmental Fund Balances</b>		\$ (416,595)
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,530,559
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	988	
Property Taxes Receivable	37,016	
		38,004
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.		(44,083)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated Absences Payable		(366,461)
<i>Net Assets of Governmental Activities</i>		\$ 741,424

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<b>Revenues:</b>				
Property Taxes	\$ 1,734,964	\$ 179,768	\$ -	\$ 1,914,732
Intergovernmental	1,822,257	24,970	289,214	2,136,441
Interest	4,732	1,546	237	6,515
Tuition and Fees	639,896	-	-	639,896
Extracurricular Activities	-	-	62,841	62,841
Charges for Services	-	-	138,349	138,349
Gifts and Donations	20,010	-	10,856	30,866
Miscellaneous	17,507	-	30,802	48,309
<i>Total Revenues</i>	<u>4,239,366</u>	<u>206,284</u>	<u>532,299</u>	<u>4,977,949</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,122,191	-	86,680	2,208,871
Special	324,484	-	87,016	411,500
Vocational	238,555	-	-	238,555
Support Services:				
Pupils	146,291	-	25,203	171,494
Instructional Staff	152,228	-	34,256	186,484
Board of Education	17,946	-	-	17,946
Administration	448,172	-	4,654	452,826
Fiscal	127,570	3,791	519	131,880
Operation and Maintenance of Plant	382,202	21,161	100	403,463
Pupil Transportation	247,240	360	-	247,600
Central	262	-	1,177	1,439
Non-Instructional Services	-	-	179,347	179,347
Extracurricular Activities	120,490	-	80,454	200,944
Capital Outlay	7,923	255,319	-	263,242
Debt Service:				
Interest and Fiscal Charges	500	15,455	-	15,955
<i>Total Expenditures</i>	<u>4,336,054</u>	<u>296,086</u>	<u>499,406</u>	<u>5,131,546</u>
<i>Changes in Fund Balances</i>	(96,688)	(89,802)	32,893	(153,597)
Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)	<u>(182,887)</u>	<u>(164,440)</u>	<u>84,329</u>	<u>(262,998)</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ (279,575)</u>	<u>\$ (254,242)</u>	<u>\$ 117,222</u>	<u>\$ (416,595)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

**Changes in Fund Balances - Total Governmental Funds** \$ (153,597)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current fiscal year:

Capital Outlay	253,865	
Depreciation	<u>(65,603)</u>	
		188,262

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

Property Taxes	22,529	
Tuition and Fees	<u>(324)</u>	
		22,205

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

Intergovernmental Payable	(810)	
Compensated Absences Payable	<u>(38,488)</u>	
		<u>(39,298)</u>

*Change in Net Assets of Governmental Activities* \$ 17,572

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$ 1,636,041	\$ 1,467,027	\$ 1,485,279	\$ 18,252
Intergovernmental	2,009,864	1,966,238	1,823,278	(142,960)
Interest	10,000	10,000	4,732	(5,268)
Tuition and Fees	626,020	650,946	635,712	(15,234)
Gifts and Donations	10,500	10,500	20,010	9,510
Miscellaneous	3,000	3,300	16,295	12,995
<i>Total Revenues</i>	4,295,425	4,108,011	3,985,306	(122,705)
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,148,967	2,157,585	2,094,101	63,484
Special	365,949	363,849	328,972	34,877
Vocational	234,046	241,147	226,582	14,565
Support Services:				
Pupils	154,994	148,440	143,413	5,027
Instructional Staff	155,957	150,511	149,955	556
Board of Education	28,694	29,248	18,120	11,128
Administration	460,338	461,189	446,828	14,361
Fiscal	127,310	125,877	125,644	233
Business				-
Operation and Maintenance of Plant	368,891	429,906	394,986	34,920
Pupil Transportation	270,637	271,637	245,885	25,752
Central	1,000	1,000	32	968
Extracurricular Activities	143,455	143,534	121,544	21,990
Capital Outlay	8,268	9,301	9,301	-
<i>Total Expenditures</i>	4,468,506	4,533,224	4,305,363	227,861
<i>Excess of Expenditures Over Revenues</i>	(173,081)	(425,213)	(320,057)	105,156
<b>Other Financing Sources (Uses):</b>				
Tax Anticipation Notes Issued	-	175,000	175,000	-
Sale of Capital Assets	800	500	-	(500)
Refund of Prior Year Expenditures	5,000	5,000	1,059	(3,941)
Refund of Prior Year Receipts	(779)	(779)	(13,497)	(12,718)
<i>Total Other Financing Sources (Uses)</i>	5,021	179,721	162,562	(17,159)
<i>Changes in Fund Balance</i>	(168,060)	(245,492)	(157,495)	87,997
Fund Balance at Beginning of Year	173,254	173,254	173,254	-
Prior Year Encumbrances Appropriated	75,627	75,627	75,627	-
<i>Fund Balance at End of Year</i>	\$ 80,821	\$ 3,389	\$ 91,386	\$ 87,997

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2004**

**Assets:**

Equity in Pooled Cash and Cash Equivalents	<u>\$ 20,691</u>
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**Liabilities:**

Undistributed Assets	\$ 393
Due to Students	<u>20,298</u>
<i>Total Liabilities</i>	<u>\$ 20,691</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Arcadia Local School District (the School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1937. The School District serves an area of approximately seventy-two square miles. It is located in Hancock and Seneca Counties. The School District is the 592<sup>nd</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty-four classified employees, forty-five certified teaching personnel, and four administrative employees who provide services to six hundred twenty-nine students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Hancock County Schools Insurance Consortium Group Health Plan, and the Ohio School Board Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Arcadia Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School 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.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

**B. Fund Accounting**

The School 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 School District are reported in two categories, governmental and fiduciary.

Governmental Funds

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



**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

The School District's two major governmental funds are the General Fund and the Permanent Improvement capital projects fund.

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

Permanent Improvement Fund - The Permanent Improvement capital projects fund accounts for the acquisition, construction, or improvement of capital facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2004. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-managed and student-managed activities.

**C. Measurement Focus**

Government-Wide Financial Statements

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

Fund Financial Statements

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and the agency funds use

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

**E. Budgetary Process**

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

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.

**F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the School District by the Hancock County Educational Service Center and Sky Bank, who services the School District's bond/coupon account, are included on the financial statements as "Cash and Cash Equivalents with Fiscal Agents".

During fiscal year 2004 investments were limited to STAR Ohio. 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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 was \$4,732, which includes \$1,657 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

**I. 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, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks and unexpended revenues restricted for the purchase of school buses.

**J. Capital Assets**

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Land Improvements	20 - 100 years
Buildings and Building Improvements	25 - 100 years
Furniture, Fixtures, and Equipment	8 - 50 years
Vehicles	15 - 30 years

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

**K. Compensated Absences**

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

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School 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 expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Fund Balance Reserves**

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

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

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

**O. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**Q. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

**A. Change in Accounting Principles**

For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District's financial statements for fiscal year 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**B. Restatement of Fund Balance**

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

	General	Permanent Improvement	Other Governmental	Total Governmental Activities
Fund Balance (Deficit) at June 30, 2003	\$ (198,719)	\$ (164,440)	\$ 80,923	\$ (282,236)
GASB Statement No. 34 Adjustment:				
Change in Fund Structure	-	-	(5,620)	(5,620)
GASB Interpretation No. 6 Adjustment:				
Compensated Absences	15,832	-	9,026	24,858
<i>Adjusted Fund Balance (Deficit)</i>	<u>\$ (182,887)</u>	<u>\$ (164,440)</u>	<u>\$ 84,329</u>	<u>(262,998)</u>
GASB Statement No. 34 Adjustments:				
Accounts Receivable				1,312
Property Taxes Receivable				14,487
Capital Assets				1,342,297
Intergovernmental Payable				(43,273)
Compensated Absences Payable				(327,973)
Governmental Activities Net Assets at June 30, 2003				<u>\$ 723,852</u>

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At June 30, 2004, the General Fund, Title VI-R special revenue fund, and Permanent Improvement capital projects fund, had a deficit fund balance, in the amount of \$279,575, \$2,082, and \$254,242,

**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

respectively, resulting from adjustments for accrued liabilities. In March 2004, the School District passed a 6.9 mill emergency levy which will help relieve the General Fund deficit.

**B. Compliance**

For the fiscal year ended June 30, 2004, the General Fund/Refund of Prior Year Receipts had expenditures in excess of appropriations, in the amount of \$12,718. The Treasurer will monitor budgetary controls to avoid future such violations.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Change in Fund Balance	
GAAP Basis	\$ (96,688)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	62,783
Accrued FY 2004, Not Yet Received in Cash	(140,284)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(533,894)
Accrued FY 2004, Not Yet Paid in Cash	557,973
Cash Adjustments	
Unrecorded Activity FY 2003	26,815

(Continued)



**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

<u>Change in Fund Balance (Continued)</u>	
Prepaid Items	(24,961)
Materials and Supplies Inventory	2,026
Tax Anticipation Notes Issued	175,000
Interest Paid on Tax Anticipation Notes	500
Reallocation of Debt Activity	(175,500)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	<u>(11,265)</u>
Budget Basis	<u>\$ (157,495)</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. 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.

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

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

1. United States Treasury 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

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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
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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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$1,000 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At fiscal year end, the School District had \$9,133 in cash and cash equivalents held by the Hancock County Educational Service Center, which is presented as "Cash and Cash Equivalents with Fiscal Agents". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the School District's deposits was \$1,865 and the bank balance was \$86,076. The entire bank balance was covered by federal depository insurance.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but

**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
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not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$352,610.

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

A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 364,608	\$ -
Cash on Hand	(1,000)	-
Cash and Cash Equivalents with Educational Service Center	(9,133)	-
Investments:		
STAR Ohio	(352,610)	352,610
GASB Statement No. 3	\$ 1,865	\$ 352,610

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), intergovernmental, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Ohio Department of Education	\$ 4,184
Other Governmental Funds	
Food Service	3,398
Title I	4,058
Title VI-R	674
<i>Total Governmental Activities</i>	\$ 12,314

**NOTE 8 - PROPERTY TAXES**

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

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

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

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. 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 School District receives property taxes from Hancock and Seneca Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$135,255 in the General Fund and \$14,499 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2003, was \$61,070 in the General Fund and \$6,563 in the Permanent Improvement capital projects fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 44,194,880	69.20%	\$ 45,783,570	71.79%
Industrial/Commercial	5,806,220	9.09%	5,811,430	9.11%
Public Utility	10,678,940	16.72%	9,511,880	14.91%
Tangible Personal	3,189,614	4.99%	2,671,426	4.19%
Total Assessed Value	<u>\$ 63,869,654</u>	<u>100.00%</u>	<u>\$ 63,778,306</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 38.97		\$ 39.01	

In March 2004, the School District passed an emergency levy for 6.9 mills for four years. Initial collections will be received in the second-half of fiscal year 2005.

**NOTE 9 - CAPITAL ASSETS**

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

	Restated Balance at 6/30/2003	Additions	Reductions	Balance at 6/30/2004
<b>Governmental Activities</b>				
Nondepreciable Capital Assets				
Land	\$ 27,410	\$ -	\$ -	\$ 27,410
Construction in Progress	128,469	159,389	(287,858)	-
<i>Total Nondepreciable Capital Assets</i>	<u>155,879</u>	<u>159,389</u>	<u>(287,858)</u>	<u>27,410</u>
Depreciable Capital Assets				
Land Improvements	139,770	-	-	139,770
Buildings and Building Improvements	841,295	375,213	(25,818)	1,190,690
Furniture, Fixtures, and Equipment	598,052	7,121	(61,759)	543,414
Vehicles	460,600	-	(16,000)	444,600
<i>Total Depreciable Capital Assets</i>	<u>2,039,717</u>	<u>382,334</u>	<u>(103,577)</u>	<u>2,318,474</u>
Less Accumulated Depreciation				
Land Improvements	(17,365)	(2,997)	-	(20,362)
Buildings and Building Improvements	(312,866)	(19,677)	25,818	(306,725)
Furniture, Fixtures, and Equipment	(331,839)	(20,729)	61,759	(290,809)
Vehicles	(191,229)	(22,200)	16,000	(197,429)
<i>Total Accumulated Depreciation</i>	<u>(853,299)</u>	<u>(65,603)</u>	<u>103,577</u>	<u>(815,325)</u>
<i>Depreciable Capital Assets, Net</i>	<u>1,186,418</u>	<u>316,731</u>	<u>-</u>	<u>1,503,149</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 1,342,297</u>	<u>\$ 476,120</u>	<u>\$ (287,858)</u>	<u>\$ 1,530,559</u>

**ARCADIA LOCAL SCHOOL DISTRICT  
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Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	5,631
Special		222
Vocational		2,666
Support Services:		
Pupils		66
Instructional Staff		1,039
Administration		214
Fiscal		231
Operation and Maintenance of Plant		13,878
Pupil Transportation		22,730
Non-Instructional Services		6,149
Extracurricular Activities		12,777
<i>Total Depreciation Expense</i>	<u>\$</u>	<u>65,603</u>

**NOTE 10 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage:

Coverage provided by Midwestern Indemnity Company is as follows:

Blanket Coverage (Buildings and Contents/Boiler and Machinery)	\$ 15,000,000
General School District Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000

Coverage provided by Indiana Insurance Company is as follows:

Umbrella Liability Insurance	\$ 3,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

The School District participates in the Hancock County Schools Insurance Consortium Group Health Plan (Plan), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The School District pays monthly premiums to the Plan for employee medical, dental, and life insurance benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**ARCADIA LOCAL SCHOOL DISTRICT  
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**Notes to the Basic Financial Statements  
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For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon

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**Notes to the Basic Financial Statements  
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recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$283,828, \$274,591, and \$191,917, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, was \$1,860 made by the School District and \$9,499 made by plan members.

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$53,166, \$46,513, and \$27,204, respectively; 41 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion



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of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$21,976.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$45,796 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum one-hundred eighty days for all school personnel. Upon retirement, payment is made for three-tenths of the accrued, but unused sick leave credit to a maximum of fifty-four days.

**B. Health Care Benefits**

The School District provides medical, dental, and life insurance to all employees through the Hancock County Schools Insurance Consortium Group Health Plan. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

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**NOTE 14 - NOTES PAYABLE**

During fiscal year 2003, the School District issued \$500,500 in tax anticipation notes for the construction of a handicap entrance and a roof replacement. The notes were issued under the authority of Ohio Revised Code Sections 133.24 and 5705.19 for a five year period, with final maturity during fiscal year 2008. The notes have an interest rate of 3.62 percent. During fiscal year 2004, principal, in the amount of \$94,074, was retired from the Permanent Improvement capital projects fund. The outstanding balance at June 30, 2004 was \$374,012.

Principal and interest requirements to retire the notes at June 30, 2004, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 97,627	\$ 12,099	\$ 109,726
2006	101,271	8,455	109,726
2007	105,050	4,675	109,725
2008	70,064	959	71,023
<i>Totals</i>	<u>\$ 374,012</u>	<u>\$ 26,188</u>	<u>\$ 400,200</u>

During fiscal year 2004, the School District issued \$175,000 in tax anticipation notes for one month for cash flow purposes until real estate tax monies were received. The notes were issued under the authority of Ohio Revised Code Sections 133.24 and 5705.19. The notes had an interest rate of 2.78 percent. The entire balance of \$175,000 was retired from the General Fund.

**NOTE 15 - LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2004 were as follows:

Governmental Activities	Restated Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04	Amounts Due Within One Year
Compensated Absences Payable	\$ 327,973	\$ 66,471	\$ 27,983	\$ 366,461	\$ 36,156

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$5,375,180 with an unvoted debt margin of \$63,778 at June 30, 2004.

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**NOTE 16 - SET ASIDES**

The School 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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	Textbooks	Capital Improvements
Balance June 30, 2003	\$ 6,161	\$ -
Current Year Set Aside Requirement	84,836	84,836
Current Year Offsets	-	(84,836)
Qualifying Expenditures	(64,696)	-
Reserve Balance June 30, 2004	\$ 26,301	\$ -

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative**

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. 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. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2004, the School District paid \$6,362 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

**B. Millstream Cooperative Vocational Career Center**

The Millstream Cooperative Vocational Career Center (Career Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, Michael Barnhart, who serves as treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

**ARCADIA LOCAL SCHOOL DISTRICT  
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(Continued)**

**C. Hancock County Local Professional Development Committee**

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

**D. Northwestern Ohio Educational Research Council, Inc.**

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

**E. West Central Regional Professional Development Center**

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**F. Northwest Ohio Special Education Regional Resource Center**

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

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**NOTE 18 - INSURANCE POOLS**

**A. Hancock County Schools Insurance Consortium Group Health Plan**

The Hancock County Schools Insurance Consortium Group Health Plan (Plan) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Plan.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Aaron Moore, Sky Insurance, P.O. Box 10079, 1695 Indian Wood Circle, Maumee, OH 43537.

**B. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**NOTE 19 - STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**ARCADIA LOCAL SCHOOL DISTRICT  
HANCOCK COUNTY**

**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004  
(Continued)**

**NOTE 20 - CONTINGENCIES**

**A. Grants**

The School 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 School District at June 30, 2004.

**B. Litigation**

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

**NOTE 21 - SUBSEQUENT EVENT**

In November 2004, the voters approved a 1 percent five-year income tax. The tax will generate approximately \$584,000 per year in the General Fund.



**Auditor of State  
Betty Montgomery**

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

Arcadia Local School District  
Hancock County  
19033 State Route 12  
Arcadia, Ohio 44804-9714

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Arcadia Local School District, Hancock County, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 5, 2005, in which we disclosed the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 5, 2005, we reported a matter involving internal control over financial reporting.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

April 5, 2005





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
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Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**ARCADIA LOCAL SCHOOL DISTRICT**

**HANCOCK 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  
MAY 10, 2005**