



**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



Mary Taylor, CPA
Auditor of State

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Arlington Local School District
Hancock County
336 South Main Street, P.O. Box 260
Arlington, Ohio 45814-0260

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

March 22, 2007

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Arlington Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets decreased \$84,846, just over 1 percent and not a significant change from the prior fiscal year.
- General revenues were 85 percent of total revenues and reflect the School District's significant dependence on taxes and unrestricted state entitlements.

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 Arlington 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 Arlington Local School District, the General Fund is the most significant fund.

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 2005. 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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 only major fund is the General 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 2005 and fiscal year 2004:

Table 1
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$5,034,248	\$5,024,829
Capital Assets, Net	4,389,546	4,492,072
Total Assets	9,423,794	9,516,901
<u>Liabilities:</u>		
Current and Other Liabilities	1,828,717	1,733,349
Long-Term Liabilities	1,363,758	1,467,387
Total Liabilities	3,192,475	3,200,736

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 1
Net Assets
(continued)

	Governmental Activities	
	2005	2004
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	\$3,645,336	\$3,632,862
Restricted	308,332	229,399
Unrestricted	2,277,651	2,453,904
Total Net Assets	\$6,231,319	\$6,316,165

As mentioned previously, the decrease in net assets from the prior fiscal year was just over 1 percent. A review of the above table demonstrates little change in assets, liabilities, or net assets. A further review of the individual accounts making up the categories listed above also reflects very little change.

Table 2 reflects the changes in net assets for fiscal year 2005 and fiscal year 2004.

Table 2
Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$303,443	\$286,937
Operating Grants, Contributions, and Interest	551,641	463,249
Capital Grants and Contributions	14,823	22,798
Total Program Revenues	869,907	772,984
General Revenues		
Property Taxes Levied for General Purposes	1,127,025	1,145,615
Property Taxes Levied for Debt Service	135,382	145,009
Income Taxes Levied for General Purposes	772,302	754,588
Grants and Entitlements	2,655,328	2,435,763
Interest	73,643	35,685
Gifts and Donations	26,838	12,910
Miscellaneous	49,975	42,264
Total General Revenues	4,840,493	4,571,834
Total Revenues	5,710,400	5,344,818
<u>Expenses</u>		
Instruction:		
Regular	2,623,815	2,301,543
Special	480,358	519,998
Vocational	243,048	219,454

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

	Governmental Activities	
	2005	2004
<u>Expenses</u>		
Support Services:		
Pupils	\$269,782	\$157,284
Instructional Staff	249,078	261,231
Board of Education	27,139	18,877
Administration	448,154	416,039
Fiscal	179,282	169,092
Operation and Maintenance of Plant	488,684	470,329
Pupil Transportation	235,525	206,804
Central	1,174	1,133
Non-Instructional Services	243,242	242,424
Extracurricular Activities	256,128	244,220
Interest and Fiscal Charges	49,837	54,512
Total Expenses	5,795,246	5,282,940
Increase (Decrease) in Net Assets	(\$84,846)	\$61,878

Program revenues only represent 15 percent of total revenues (up slightly from the prior fiscal year) and primarily consist of tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues. The increase was primarily due to additional monies for IDEA Part B, a federal grant program.

General revenues are made up almost entirely of property taxes, income taxes, and unrestricted state entitlements. Grants and entitlements increased approximately 9 percent due to a larger ADM, and additional parity aid and special education monies. Additional interest revenues were due to securing higher rates from CD's and banking institutions.

Overall, expenses increased 9.7 percent from the fiscal year 2004. The major program expenses for governmental activities are for instruction, which accounts for 58 percent of all governmental expenses. Regular instruction expenditures increased due to severance payments and additional employees taking medical insurance. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation accounted for over 13 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 8 percent. Therefore, 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$2,623,815	\$2,301,543	\$2,489,545	\$2,209,189
Special	480,358	519,998	252,285	241,585
Vocational	243,048	219,454	208,477	181,154
Support Services:				
Pupils	269,782	157,284	147,317	132,259
Instructional Staff	249,078	261,231	249,078	261,231
Board of Education	27,139	18,877	27,139	18,877
Administration	448,154	416,039	448,154	416,039
Fiscal	179,282	169,092	179,282	169,092
Operation and Maintenance of Plant	488,684	470,329	488,684	470,329
Pupil Transportation	235,525	206,804	231,323	202,447
Central	1,174	1,133	1,174	1,133
Non-Instructional Services	243,242	242,424	8,395	21,861
Extracurricular Activities	256,128	244,220	144,649	130,248
Interest and Fiscal Charges	49,837	54,512	49,837	54,512
Total Expenses	<u>\$5,795,246</u>	<u>\$5,282,940</u>	<u>\$4,925,339</u>	<u>\$4,509,956</u>

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 47 percent of special instruction costs are provided for through operating grants for special instruction programs. Program revenues provide for almost 97 percent of non-instructional services costs. These program revenues consist of cafeteria sales, state and federal subsidies, and donated commodities for food service operations. A good portion, almost 44 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. The School District's major fund, the General Fund, had a decrease in fund balance of 4 percent, not a significant decrease.

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

During fiscal year 2005, the School District amended its General Fund budget as needed. For revenues, the primary increase from the original to final budget was primarily due to additional foundation resources from the State and federal grant monies. Changes from the final budget to actual revenues received were not significant.

Changes from the original budgeted expenditures to the final budgeted amounts were minor. Actual expenditures were less than budgeted amounts by \$310,597. As in the prior year, the School District continued to moderately restrict spending in all programs.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$4,389,546 invested in capital assets (net of accumulated depreciation), a decrease of \$102,526, or 2 percent. The decrease is the result of depreciation expense exceeding additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2005, the School District had outstanding general obligation bonds, in the amount of \$911,983, issued for constructing a building addition. The bonds were issued for a fifteen year period, with final maturity in fiscal year 2015. The School District's long-term obligations also included compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

The Arlington Local School District is a rural, agricultural community with very little industry; it is also the focal point of the community providing weekend sporting events and musical productions. A high percentage of people live and work here long-term and the community supports the School District throughout its many endeavors. A high percentage of the students participate in athletics, musicals, and other programs.

The School District is beginning the first year of a three-year strategic plan involving community members, students, staff, and administration.

The School District is in its third year of a three-year negotiated agreement. Base salary increases of 4 percent were given for all three years. Also, the health care package was not changed. Significant increases in medical premiums are a concern; the Board of Education will continue to observe and work to address this issue.

The five-year forecast indicates that the School District will begin deficit spending in fiscal year 2007; the Board of Education's finance committee, the superintendent, and the treasurer meet on a quarterly basis to review this document and discuss options.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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 Mary Klein, Treasurer, Arlington Local School District, 336 South Main Street, Arlington, Ohio 45814

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2005**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,354,198
Cash and Cash Equivalents with Fiscal Agent	7,402
Accounts Receivable	4,528
Accrued Interest Receivable	1,958
Intergovernmental Receivable	7,741
Prepaid Items	60,933
Inventory Held for Resale	8,406
Materials and Supplies Inventory	17,074
Income Taxes Receivable	300,000
Property Taxes Receivable	1,272,008
Nondepreciable Capital Assets	309,090
Depreciable Capital Assets, Net	4,080,456
Total Assets	9,423,794
 <u>Liabilities:</u>	
Accounts Payable	1,945
Accrued Wages and Benefits Payable	473,961
Matured Compensated Absences Payable	63,403
Intergovernmental Payable	142,345
Deferred Revenue	1,144,231
Accrued Interest Payable	2,832
Long-Term Liabilities:	
Due Within One Year	188,267
Due in More Than One Year	1,175,491
Total Liabilities	3,192,475
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	3,645,336
Restricted For:	
Set Asides	63,465
Debt Service	80,650
Other Purposes	164,217
Unrestricted	2,277,651
Total Net Assets	\$6,231,319

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,623,815	\$37,284	\$96,986		(\$2,489,545)
Special	480,358		228,073		(252,285)
Vocational	243,048	495	34,076		(208,477)
Support Services:					
Pupils	269,782		122,465		(147,317)
Instructional Staff	249,078				(249,078)
Board of Education	27,139				(27,139)
Administration	448,154				(448,154)
Fiscal	179,282				(179,282)
Operation and Maintenance of Plant	488,684				(488,684)
Pupil Transportation	235,525			\$4,202	(231,323)
Central	1,174				(1,174)
Non-Instructional Services	243,242	171,420	63,427		(8,395)
Extracurricular Activities	256,128	94,244	6,614	10,621	(144,649)
Interest and Fiscal Charges	49,837				(49,837)
Total Governmental Activities	<u>\$5,795,246</u>	<u>\$303,443</u>	<u>\$551,641</u>	<u>\$14,823</u>	<u>(4,925,339)</u>
<u>General Revenues:</u>					
Property Taxes Levied for General Purposes					1,127,025
Property Taxes Levied for Debt Service					135,382
Income Taxes Levied for General Purposes					772,302
Grants and Entitlements not Restricted to Specific Programs					2,655,328
Interest					73,643
Gifts and Donations					26,838
Miscellaneous					49,975
Total General Revenues					<u>4,840,493</u>
Change in Net Assets					(84,846)
Net Assets at Beginning of Year					<u>6,316,165</u>
Net Assets at End of Year					<u>\$6,231,319</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,066,092	\$216,083	\$3,282,175
Cash and Cash Equivalents with Fiscal Agent		7,402	7,402
Accounts Receivable	4,213	315	4,528
Accrued Interest Receivable	1,958		1,958
Intergovernmental Receivable	256	7,485	7,741
Interfund Receivable	10,000		10,000
Prepaid Items	57,341	3,592	60,933
Inventory Held for Resale		8,406	8,406
Materials and Supplies Inventory	16,169	905	17,074
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	72,023		72,023
Income Taxes Receivable	300,000		300,000
Property Taxes Receivable	1,138,773	133,235	1,272,008
Total Assets	\$4,666,825	\$377,423	\$5,044,248
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$1,638	\$307	\$1,945
Accrued Wages and Benefits Payable	443,543	30,418	473,961
Matured Compensated Absences Payable	63,403		63,403
Intergovernmental Payable	129,091	13,254	142,345
Interfund Payable		10,000	10,000
Deferred Revenue	1,091,264	120,631	1,211,895
Total Liabilities	1,728,939	174,610	1,903,549
<u>Fund Balances:</u>			
Reserved for Property Taxes	103,213	12,787	116,000
Reserved for Capital Improvements	63,465		63,465
Reserved for Bus Purchase	8,558		8,558
Reserved for Encumbrances	71,813	10,869	82,682
<u>Unreserved, Reported in:</u>			
General Fund	2,690,837		2,690,837
Special Revenue Funds		109,621	109,621
Debt Service Fund		69,536	69,536
Total Fund Balances	2,937,886	202,813	3,140,699
Total Liabilities and Fund Balances	\$4,666,825	\$377,423	\$5,044,248

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances		\$3,140,699
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.		
		4,389,546
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	4,304	
Accrued Interest Receivable	743	
Income Taxes Receivable	50,840	
Property Taxes Receivable	11,777	
	<u>67,664</u>	
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(2,832)	
General Obligation Bonds Payable	(911,983)	
Compensated Absences Payable	(451,775)	
	<u>(1,366,590)</u>	
Net Assets of Governmental Activities		<u><u>\$6,231,319</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$1,125,472	\$135,274	\$1,260,746
Income Taxes	780,278		780,278
Intergovernmental	2,850,467	354,081	3,204,548
Interest	73,212	2,915	76,127
Tuition and Fees	35,878		35,878
Extracurricular Activities	3,808	90,474	94,282
Charges for Services		171,420	171,420
Gifts and Donations	14,260	17,032	31,292
Miscellaneous	14,621	35,351	49,972
Total Revenues	<u>4,897,996</u>	<u>806,547</u>	<u>5,704,543</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	2,452,329	139,236	2,591,565
Special	414,614	58,128	472,742
Vocational	249,273		249,273
Support Services:			
Pupils	135,713	117,465	253,178
Instructional Staff	247,909	5,288	253,197
Board of Education	27,139		27,139
Administration	451,224		451,224
Fiscal	190,091	2,501	192,592
Operation and Maintenance of Plant	494,561		494,561
Pupil Transportation	210,025		210,025
Central	1,174		1,174
Non-Instructional Services		247,903	247,903
Extracurricular Activities	148,801	90,497	239,298
Debt Service:			
Principal Retirement		115,000	115,000
Interest and Fiscal Charges		36,709	36,709
Total Expenditures	<u>5,022,853</u>	<u>812,727</u>	<u>5,835,580</u>
Changes in Fund Balances	(124,857)	(6,180)	(131,037)
Fund Balances at Beginning of Year	<u>3,062,743</u>	<u>208,993</u>	<u>3,271,736</u>
Fund Balances at End of Year	<u>\$2,937,886</u>	<u>\$202,813</u>	<u>\$3,140,699</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON 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, 2005**

Changes in Fund Balances - Total Governmental Funds (\$131,037)

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 depreciation exceeded capital outlay in the current fiscal year:

Capital Outlay	\$41,850	
Capital Contributions	10,621	
Depreciation	<u>(153,673)</u>	(101,202)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (1,324)

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

Property Taxes	1,661	
Income Taxes	(7,976)	
Interest	(315)	
Tuition and Fees	1,901	
Extracurricular Activities	(38)	
Miscellaneous	<u>3</u>	(4,764)

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 115,000

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

Accrued Interest Payable	455	
Annual Accretion	<u>(13,583)</u>	(13,128)

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

Intergovernmental Payable	49,397	
Compensated Absences Payable	<u>2,212</u>	51,609

Change in Net Assets of Governmental Activities (\$84,846)

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$1,098,895	\$1,109,808	\$1,114,975	\$5,167
Income Taxes	725,000	771,455	771,455	
Intergovernmental	2,471,800	2,840,175	2,851,995	11,820
Interest	37,500	63,058	71,997	8,939
Tuition and Fees	43,902	46,156	35,878	(10,278)
Extracurricular Activities	4,050	4,050	3,808	(242)
Gifts and Donations	16,750	16,750	14,260	(2,490)
Miscellaneous	13,100	13,100	9,062	(4,038)
Total Revenues	<u>4,410,997</u>	<u>4,864,552</u>	<u>4,873,430</u>	<u>8,878</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,463,110	2,476,661	2,407,554	69,107
Special	471,135	471,585	411,753	59,832
Vocational	301,990	302,227	233,311	68,916
Support Services:				
Pupils	141,002	141,002	134,227	6,775
Instructional Staff	274,926	274,925	241,785	33,140
Board of Education	31,100	36,600	33,890	2,710
Administration	443,717	443,717	428,189	15,528
Fiscal	204,243	204,243	189,498	14,745
Operation and Maintenance of Plant	554,807	552,808	529,201	23,607
Pupil Transportation	196,631	206,630	201,506	5,124
Central	1,400	1,650	1,539	111
Extracurricular Activities	159,789	159,788	148,786	11,002
Total Expenditures	<u>5,243,850</u>	<u>5,271,836</u>	<u>4,961,239</u>	<u>310,597</u>
Excess of Revenues Under Expenditures	<u>(832,853)</u>	<u>(407,284)</u>	<u>(87,809)</u>	<u>319,475</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	6,000	6,000	5,339	(661)
Advances In	10,000	10,792	10,792	
Advances Out	(10,000)	(10,000)	(10,000)	
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>6,792</u>	<u>6,131</u>	<u>(661)</u>
Changes in Fund Balance	(826,853)	(400,492)	(81,678)	318,814
Fund Balance at Beginning of Year	3,090,494	3,090,494	3,090,494	
Prior Year Encumbrances Appropriated	55,859	55,859	55,859	
Fund Balance at End of Year	<u>\$2,319,500</u>	<u>\$2,745,861</u>	<u>\$3,064,675</u>	<u>\$318,814</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$23,869</u></u>
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Liabilities:

Due to Students	<u><u>\$23,869</u></u>
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See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Arlington 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 1923 through the consolidation of existing land areas and school districts. The School District serves an area of approximately seventy-six square miles. It is located in Hancock County, and includes all of the Village of Arlington and portions of Eagle, Jackson, Madison, and Van Buren Townships. The School District is the 578th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by twenty-nine classified employees, forty-six certified teaching personnel, and three administrative employees who provide services to six hundred fifty-seven students and other community members. The School District currently operates one facility which includes the elementary, middle, and high schools.

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 Arlington 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 Arlington 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 Ohio Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Hancock County Schools Insurance Consortium Group Health Plan, and Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 18 and 19 to the basic financial statements.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Arlington 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 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 divided into two categories, governmental and fiduciary.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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. The School District's major fund is the General 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.

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 2005. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual 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, income 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 income taxes is recognized in the fiscal year in which the income is earned. 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, income taxes, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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.

E. Budgetary Process

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

During fiscal year 2005, 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, 2005.

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 2005 was \$73,212, which includes \$2,122 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 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, 2005, 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 and donated and purchased food.

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 externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the acquisition or construction of capital improvements as well as 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 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 100 years
Buildings and Building Improvements	10 - 100 years
Furniture, Fixtures, and Equipment	5 - 75 years
Vehicles	10 - 20 years
Infrastructure	50 years

K. Interfund Assets/Liabilities

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

L. 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 eight years of service.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

M. Accrued Liabilities and Long-Term Obligations

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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, 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 fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

N. 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. As of June 30, 2005, there were no net assets restricted by enabling legislation.

O. 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, capital improvements, 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.

P. Capital Contributions

Capital contributions arise from outside contributions of capital assets.

Q. 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

R. Extraordinary and Special Items

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

S. 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

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any changes to the School District's financial statements.

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

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any change to the School District's financial statements.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2005, the Food Service, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$29,182, \$5,786, and \$18, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE – (CONTINUED)

B. Compliance

For the fiscal year ended June 30, 2005, the Title II-A special revenue fund had appropriations in excess of estimated resources plus available balances, in the amount of \$590. The Treasurer will review budgeted resources to ensure they are sufficient for amounts appropriated.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

Changes in Fund Balance	
GAAP Basis	(\$124,857)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	334,709
Accrued FY 2005, Not Yet Received in Cash	(353,936)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(506,065)
Accrued FY 2005, Not Yet Paid in Cash	637,675
	(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

Changes in Fund Balance

Prepaid Items	(\$8,739)
Materials and Supplies Inventory	12,183
Advances In	10,792
Advances Out	(10,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(73,440)
Budget Basis	<u>(\$81,678)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

Interim monies held by the School District 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 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;

**ARLINGTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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.

At fiscal year end, the School District had \$7,402 in cash and cash equivalents held by the Hancock Educational Service Center, which are included as "Cash and Cash Equivalents with Fiscal Agent". 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,712,426 of the School District's bank balance of \$3,012,426 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**ARLINGTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Investments

As of June 30, 2005, the carrying value of funds on deposit with STAR Ohio was \$409,669. The School District's investments in STAR Ohio have an average maturity of 30.4 days. STAR Ohio carries a rating of AAA by Standards and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, interfund, income taxes, 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:

	<u>Amount</u>
Governmental Activities	
General Fund	
State of Ohio	<u>\$256</u>
Other Governmental Funds	
Ohio Reads	494
Student Intervention	1,092
Rural Education Achievement Program	<u>5,899</u>
Total Other Governmental Funds	<u>7,485</u>
Total Intergovernmental Receivables	<u>\$7,741</u>

NOTE 8 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1996, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**ARLINGTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - 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 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 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, 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 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. 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 County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005, 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, 2005, was \$103,213 in the General Fund and \$12,787 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2004, was \$92,716 in the General Fund and \$12,284 in the Bond Retirement debt service 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$49,965,270	85.08%	\$50,436,990	84.66%
Industrial/Commercial	3,379,280	5.75	3,389,570	5.69
Public Utility	2,626,360	4.47	3,123,070	5.24
Tangible Personal	2,759,004	4.70	2,629,603	4.41
Total Assessed Value	<u>\$58,729,914</u>	<u>100.00%</u>	<u>\$59,579,233</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.05		\$33.90	

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$309,090			\$309,090
Depreciable Capital Assets				
Land Improvements	159,214			159,214
Buildings and Building Improvements	4,262,751	\$11,301		4,274,052
Furniture, Fixtures, and Equipment	885,656	41,170	(\$9,763)	917,063
Vehicles	456,228			456,228
Infrastructure	11,856			11,856
Total Depreciable Capital Assets	<u>5,775,705</u>	<u>52,471</u>	<u>(9,763)</u>	<u>5,818,413</u>

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Less Accumulated Depreciation				
Land Improvements	(\$46,435)	(\$4,626)		(\$51,061)
Buildings and Building Improvements	(768,780)	(63,261)		(832,041)
Furniture, Fixtures, and Equipment	(523,640)	(52,059)	\$8,439	(567,260)
Vehicles	(253,137)	(33,490)		(286,627)
Infrastructure	(731)	(237)		(968)
Total Accumulated Depreciation	<u>(1,592,723)</u>	<u>(153,673)</u>	<u>8,439</u>	<u>(1,737,957)</u>
Depreciable Capital Assets, Net	<u>4,182,982</u>	<u>(101,202)</u>	<u>(1,324)</u>	<u>4,080,456</u>
Governmental Activities Capital Assets, Net	<u>\$4,492,072</u>	<u>(\$101,202)</u>	<u>(\$1,324)</u>	<u>\$4,389,546</u>

The School District accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$10,621 during fiscal year 2005.

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$45,001
Special		1,867
Vocational		2,339
Support Services:		
Pupils		4,483
Instructional Staff		1,714
Administration		987
Fiscal		592
Operation and Maintenance of Plant		37,060
Pupil Transportation		34,383
Non-Instructional Services		4,108
Extracurricular Activities		21,139
Total Depreciation Expense		<u>\$153,673</u>

NOTE 11 - INTERFUND ASSETS/LIABILITIES

At June 30, 2005, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$10,000, to subsidize activities of the Food Service special revenue fund.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - 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 2005, the School District contracted for the following insurance coverage.

Coverage provided by Cincinnati Insurance Company is as follows:	
Total Policy Coverage - includes the following:	\$7,992,000
Buildings and Contents	
Inland Marine Coverage	
Boiler and Machinery	
General School District Liability	1,000,000
Umbrella Liability Insurance	6,000,000

Coverage provided by Auto Owners Mutual Insurance is as follows:

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.

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan 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 Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

NOTE 13 - 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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, 2005, 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 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, 2005, 2004, and 2003, was \$317,710, \$297,434, and \$281,023, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$114 made by the School District and \$109 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, 2005, 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 2005 was 14 percent of annual covered payroll; 10.57 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$73,963, \$60,333, and \$53,738, respectively; 47 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

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, 2005, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 14 - 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 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 2005, 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 \$24,448.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All 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, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$37,996 for fiscal year 2005.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

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, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 15 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. 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 of two hundred days for all school personnel. Upon retirement, payment is made for 27 percent of their accrued but unused sick leave credit to a maximum of fifty-four days.

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Insurance Consortium Group Health Plan. The School District offers life insurance to all employees through Medical Life Insurance Company. 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
FY00 Refunding School Improvement Bonds					
Serial Bonds 4-4.95%	\$340,000		\$115,000	\$225,000	\$115,000
Term Bonds 5.1%	425,000			425,000	
Capital Appreciation Bonds 5.05- 5.1%	94,210			94,210	
Accretion of Capital Appreciation Bonds	<u>154,190</u>	<u>13,583</u>		<u>167,773</u>	
Total General Obligation Bonds	1,013,400	13,583	115,000	911,983	115,000
Compensated Absences Payable	<u>453,987</u>	<u>14,552</u>	<u>16,764</u>	<u>451,775</u>	<u>73,267</u>
Total Governmental Activities Long -Term Obligations	<u>\$1,467,387</u>	<u>\$28,135</u>	<u>\$131,764</u>	<u>\$1,363,758</u>	<u>\$188,267</u>

FY 2000 Refunding School Improvement Bonds - On November 1, 1999, the School District issued bonds, in the amount of \$1,144,210, to refund bonds previously issued in fiscal year 1992, in the amount of \$1,990,000, for constructing a building addition to house the elementary school library, elementary classrooms, and a new gymnasium. The refunding bond issue included serial, term, and capital appreciation bonds, in the amount of \$625,000, \$425,000, and \$94,210, respectively. The bonds were issued for a fifteen year period, with final maturity during fiscal year 2015.

The term bonds maturing on December 1, 2012, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2010 and 2011 (with the balance of \$85,000 to be paid at stated maturity on December 1, 2012), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2010	\$90,000
2011	85,000

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS – (CONTINUED)

The term bonds maturing on December 1, 2014, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in the year 2013 (with the balance of \$80,000 to be paid at stated maturity on December 1, 2014), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2013	\$85,000

Term bonds redeemed by other than mandatory redemption, or purchased for cancellation may be credited against the applicable mandatory redemption requirement.

The serial bonds are subject to prior redemption on or after December 1, 2009, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date and in integral multiples of \$5,000, at par plus the following redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2009 through November 30, 2010	101%
December 1, 2010 and thereafter	100

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$315,000. For fiscal year 2005, \$13,583 was accreted on the capital appreciation bonds for a total outstanding bond value of \$261,983 at fiscal year end.

Compensated absences will be paid from the General Fund and the Food Service and Title I special revenue funds.

The School District's overall debt margin was \$4,532,471 with an unvoted debt margin of \$59,579 at June 30, 2005.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS – (CONTINUED)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			Interest	Total
	Serial	Term	Capital		
2006	\$115,000			\$31,218	\$146,218
2007	110,000			25,763	135,763
2008			\$37,247	95,820	133,067
2009			31,083	96,984	128,067
2010			25,880	97,187	123,067
2011-2015		\$425,000		57,088	482,088
	<u>\$225,000</u>	<u>\$425,000</u>	<u>\$94,210</u>	<u>\$404,060</u>	<u>\$1,148,270</u>

NOTE 17 - 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 2005.

	Textbooks	Capital Improvements
Balance June 30, 2004	(\$17,265)	
Current Year Set Aside Requirement	87,736	\$87,736
Qualifying Expenditures	(100,152)	(24,271)
Balance June 30, 2005	<u> </u>	<u>\$63,465</u>
Amount Carried Forward to Fiscal Year 2006	<u>(\$29,681)</u>	<u>\$63,465</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**ARLINGTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 18 - 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 elected by majority vote of all charter member school districts within each county. During fiscal year 2005, the School District paid \$7,287 to NOACSC for various services. Financial information can be obtained from Raymond Burden, 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.

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

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

NOTE 19 - 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 19 - INSURANCE POOLS – (CONTINUED)

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

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, 2005.

B. Litigation

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

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Mary Taylor, CPA

Auditor of State

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

Arlington Local School District
Hancock County
336 South Main Street, P.O. Box 260
Arlington, Ohio 45814-0260

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio (the School District) as of and for the year ended June 30, 2005 which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 22, 2007, we reported other matters involving internal controls over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School 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 School District's management dated March 22, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 22, 2007



Mary Taylor, CPA
Auditor of State

ARLINGTON 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
APRIL 17, 2007