



**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



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, 2006, 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, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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, 2006
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, 2006. 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 2006 are as follows:

- In total, net assets increased \$17,328, less than 1 percent.
- General revenues were 84 percent of total revenues and continue to reflect the School District's significant dependence on taxes and unrestricted state entitlements.
- The School District recorded 2,601 volunteer hours in the elementary school during fiscal year 2006.

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 2006. 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

Reporting the School District's Most Significant Funds

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

Governmental Funds - All 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 2006 and fiscal year 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$4,995,715	\$5,034,248
Capital Assets, Net	4,335,209	4,389,546
Total Assets	9,330,924	9,423,794
		(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Table 1
Net Assets
(continued)

	Governmental Activities	
	2006	2005
<u>Liabilities:</u>		
Current and Other Liabilities	\$1,795,763	\$1,828,717
Long-Term Liabilities	1,286,514	1,363,758
Total Liabilities	3,082,277	3,192,475
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,705,999	3,645,336
Restricted	330,203	308,332
Unrestricted	2,212,445	2,277,651
Total Net Assets	\$6,248,647	\$6,231,319

As mentioned previously, the increase in net assets from the prior fiscal year was less than 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 2006 and fiscal year 2005.

Table 2
Change in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues</u>		
<u>Program Revenues</u>		
Charges for Services	\$409,498	\$303,443
Operating Grants, Contributions, and Interest	564,128	551,641
Capital Grants and Contributions	10,503	14,823
Total Program Revenues	984,129	869,907

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Table 2
Change in Net Assets
(continued)

	Governmental Activities	
	2006	2005
<u>Revenues</u>		
General Revenues		
Property Taxes Levied for General Purposes	\$1,128,684	\$1,127,025
Property Taxes Levied for Debt Service	127,924	135,382
Income Taxes Levied for General Purposes	848,174	772,302
Grants and Entitlements	2,679,526	2,655,328
Interest	138,575	73,643
Gifts and Donations	21,493	26,838
Miscellaneous	50,750	49,975
Total General Revenues	<u>4,995,126</u>	<u>4,840,493</u>
Total Revenues	<u>5,979,255</u>	<u>5,710,400</u>
<u>Expenses</u>		
Instruction:		
Regular	2,733,376	2,623,815
Special	481,782	480,358
Vocational	215,709	243,048
Support Services:		
Pupils	288,539	269,782
Instructional Staff	298,122	249,078
Board of Education	22,746	27,139
Administration	439,614	448,154
Fiscal	178,864	179,282
Operation and Maintenance of Plant	523,527	488,684
Pupil Transportation	231,336	235,525
Central	1,068	1,174
Non-Instructional Services	235,571	243,242
Extracurricular Activities	266,596	256,128
Interest and Fiscal Charges	45,077	49,837
Total Expenses	<u>5,961,927</u>	<u>5,795,246</u>
Increase (Decrease) in Net Assets	17,328	(84,846)
Net Assets at Beginning of Year	<u>6,231,319</u>	<u>6,316,165</u>
Net Assets at End of Year	<u>\$6,248,647</u>	<u>\$6,231,319</u>

Program revenues only represent 16 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 and open enrollment (first time participants in fiscal year 2006).

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Program expenses in fiscal year 2006 were very comparable to fiscal year 2005, a less than 3 percent increase from the prior fiscal year. The major program expenses for governmental activities are for instruction, which accounts for over 57 percent of all governmental expenses. Regular instruction expenses increased due to an increase of master degree holders and a high rate of long-term illnesses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation accounted for 14 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 9 percent. Therefore, 80 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.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$2,733,376	\$2,623,815	\$2,511,712	\$2,489,545
Special	481,782	480,358	238,043	252,285
Vocational	215,709	243,048	183,113	208,477
Support Services:				
Pupils	288,539	269,782	152,638	147,317
Instructional Staff	298,122	249,078	298,122	249,078
Board of Education	22,746	27,139	22,746	27,139
Administration	439,614	448,154	439,614	448,154
Fiscal	178,864	179,282	178,864	179,282
Operation and Maintenance of Plant	523,527	488,684	523,527	488,684
Pupil Transportation	231,336	235,525	228,641	231,323
Central	1,068	1,174	1,068	1,174
Non-Instructional Services	235,571	243,242	(9,913)	8,395
Extracurricular Activities	266,596	256,128	164,546	144,649
Interest and Fiscal Charges	45,077	49,837	45,077	49,837
Total Expenses	<u>\$5,961,927</u>	<u>\$5,795,246</u>	<u>\$4,977,798</u>	<u>\$4,925,339</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 51 percent of special instruction costs are provided for through operating grants for special instruction programs. Program revenues exceeded non-instructional services costs for fiscal year 2006. These program revenues consist of cafeteria sales, state and federal subsidies, and donated commodities for food service operations. A good portion, almost 38 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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 less than 1 percent.

General Fund Budgeting Highlights

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

During fiscal year 2006, the School District amended its General Fund budget as needed. For both revenues and expenditures, changes from the original budget to the final budget and from the final budget to actual revenues received were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$4,335,209 invested in capital assets (net of accumulated depreciation), a decrease of \$54,337, or 1 percent. The decrease is the result of depreciation expense exceeding capital asset additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2006, the School District had outstanding general obligation bonds, in the amount of \$811,302, 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 second year of a three-year strategic plan involving community members, students, staff, and administration. As a result of that plan, teachers are involved in cutting edge professional development that is job-embedded and occurs on a daily basis.

The School District is beginning the first year of a three-year negotiated agreement. Base salary increases of 2 percent were given for all three years. Also, concessions were made to the health care package as significant increases in medical premiums are a concern; the Board of Education will continue to observe and work to address this issue.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

The five-year forecast indicates that the School District will begin deficit spending in fiscal year 2008; the Board of Education's finance committee, the superintendent, and the treasurer meet on a quarterly basis to review this document and discuss options.

The School District is currently hosting public meetings in regard to the Ohio School Facilities Commission potential offer in fiscal year 2007.

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 45814-0260.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,330,006
Accounts Receivable	4,744
Accrued Interest Receivable	3,098
Intergovernmental Receivable	14,328
Prepaid Items	21,727
Inventory Held for Resale	7,630
Materials and Supplies Inventory	14,731
Income Taxes Receivable	318,486
Property Taxes Receivable	1,280,965
Nondepreciable Capital Assets	309,090
Depreciable Capital Assets, Net	4,026,119
Total Assets	9,330,924
 <u>Liabilities:</u>	
Accounts Payable	10,450
Accrued Wages and Benefits Payable	442,474
Matured Compensated Absences Payable	20,359
Intergovernmental Payable	160,765
Deferred Revenue	1,159,343
Accrued Interest Payable	2,372
Long-Term Liabilities:	
Due Within One Year	133,422
Due in More Than One Year	1,153,092
Total Liabilities	3,082,277
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	3,705,999
Restricted For:	
Set Asides	111,192
Debt Service	76,724
Capital Projects	365
Other Purposes	141,922
Unrestricted	2,212,445
Total Net Assets	\$6,248,647

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	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	\$2,733,376	\$138,679	\$75,177	\$7,808	(\$2,511,712)
Special	481,782		243,739		(238,043)
Vocational	215,709	584	32,012		(183,113)
Support Services:					
Pupils	288,539		135,901		(152,638)
Instructional Staff	298,122				(298,122)
Board of Education	22,746				(22,746)
Administration	439,614				(439,614)
Fiscal	178,864				(178,864)
Operation and Maintenance of Plant	523,527				(523,527)
Pupil Transportation	231,336			2,695	(228,641)
Central	1,068				(1,068)
Non-Instructional Services	235,571	175,508	69,976		9,913
Extracurricular Activities	266,596	94,727	7,323		(164,546)
Interest and Fiscal Charges	45,077				(45,077)
Total Governmental Activities	<u>\$5,961,927</u>	<u>\$409,498</u>	<u>\$564,128</u>	<u>\$10,503</u>	<u>(4,977,798)</u>
<u>General Revenues:</u>					
					1,128,684
					127,924
					848,174
					2,679,526
					138,575
					21,493
					50,750
					<u>4,995,126</u>
					17,328
					6,231,319
					<u>\$6,248,647</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,998,065	\$213,096	\$3,211,161
Accounts Receivable	4,337	407	4,744
Accrued Interest Receivable	3,098		3,098
Intergovernmental Receivable	7,730	6,598	14,328
Interfund Receivable	21,003		21,003
Prepaid Items	21,727		21,727
Inventory Held for Resale		7,630	7,630
Materials and Supplies Inventory	13,853	878	14,731
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	118,845		118,845
Income Taxes Receivable	318,486		318,486
Property Taxes Receivable	1,152,394	128,571	1,280,965
Total Assets	\$4,659,538	\$357,180	\$5,016,718
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$9,965	\$485	\$10,450
Accrued Wages and Benefits Payable	412,730	29,744	442,474
Matured Compensated Absences Payable	20,359		20,359
Intergovernmental Payable	146,857	13,908	160,765
Interfund Payable		21,003	21,003
Deferred Revenue	1,135,639	119,508	1,255,147
Total Liabilities	1,725,550	184,648	1,910,198
<u>Fund Balances:</u>			
Reserved for Property Taxes	78,789	9,211	88,000
Reserved for Capital Improvements	111,192		111,192
Reserved for Bus Purchase	7,653		7,653
Reserved for Encumbrances	39,525	7,833	47,358
<u>Unreserved, Reported in:</u>			
General Fund	2,696,829		2,696,829
Special Revenue Funds		88,377	88,377
Debt Service Fund		66,746	66,746
Capital Projects Fund		365	365
Total Fund Balances	2,933,988	172,532	3,106,520
Total Liabilities and Fund Balances	\$4,659,538	\$357,180	\$5,016,718

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, 2006**

Total Governmental Fund Balances \$3,106,520

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. 4,335,209

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$3,569	
Accrued Interest Receivable	754	
Income Taxes Receivable	57,859	
Property Taxes Receivable	<u>33,622</u>	
		95,804

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(2,372)	
General Obligation Bonds Payable	(811,302)	
Compensated Absences Payable	<u>(475,212)</u>	
		<u>(1,288,886)</u>

Net Assets of Governmental Activities \$6,248,647

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, 2006**

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$1,108,819	\$125,944	\$1,234,763
Income Taxes	841,155		841,155
Intergovernmental	2,891,099	355,637	3,246,736
Interest	137,326	5,553	142,879
Tuition and Fees	139,963		139,963
Extracurricular Activities	3,867	90,835	94,702
Charges for Services		175,508	175,508
Gifts and Donations	16,409	8,190	24,599
Miscellaneous	19,813	30,997	50,810
Total Revenues	<u>5,158,451</u>	<u>792,664</u>	<u>5,951,115</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	2,533,678	131,293	2,664,971
Special	440,326	54,740	495,066
Vocational	211,489		211,489
Support Services:			
Pupils	141,704	137,930	279,634
Instructional Staff	297,265	261	297,526
Board of Education	22,746		22,746
Administration	452,634		452,634
Fiscal	175,541	2,416	177,957
Operation and Maintenance of Plant	527,672		527,672
Pupil Transportation	203,132		203,132
Central	1,068		1,068
Non-Instructional Services		244,488	244,488
Extracurricular Activities	152,094	98,156	250,250
Capital Outlay	3,000	7,443	10,443
Debt Service:			
Principal Retirement		115,000	115,000
Interest and Fiscal Charges		31,218	31,218
Total Expenditures	<u>5,162,349</u>	<u>822,945</u>	<u>5,985,294</u>
Changes in Fund Balances	(3,898)	(30,281)	(34,179)
Fund Balances at Beginning of Year	2,937,886	202,813	3,140,699
Fund Balances at End of Year	<u>\$2,933,988</u>	<u>\$172,532</u>	<u>\$3,106,520</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, 2006**

Changes in Fund Balances - Total Governmental Funds (\$34,179)

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	\$99,718	
Depreciation	(150,310)	
		(50,592)

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. (3,745)

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

Property Taxes	21,845	
Income Taxes	7,019	
Interest	11	
Tuition and Fees	(700)	
Extracurricular Activities	25	
Miscellaneous	(60)	
		28,140

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	460	
Annual Accretion	(14,319)	
		(13,859)

Compensated Absences 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. (23,437)

Change in Net Assets of Governmental Activities \$17,328

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, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$1,124,300	\$1,124,300	\$1,133,243	\$8,943
Income Taxes	750,000	770,000	829,688	59,688
Intergovernmental	2,824,286	2,910,928	2,891,099	(19,829)
Interest	68,000	90,000	136,197	46,197
Tuition and Fees	112,295	150,325	139,963	(10,362)
Extracurricular Activities	5,000	5,000	3,867	(1,133)
Gifts and Donations	16,750	16,750	16,409	(341)
Miscellaneous	10,750	10,750	8,378	(2,372)
Total Revenues	<u>4,911,381</u>	<u>5,078,053</u>	<u>5,158,844</u>	<u>80,791</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,520,611	2,583,535	2,564,620	18,915
Special	417,374	453,006	449,377	3,629
Vocational	238,682	226,400	218,893	7,507
Support Services:				
Pupils	145,764	141,148	139,568	1,580
Instructional Staff	304,447	298,093	289,283	8,810
Board of Education	40,850	33,752	26,052	7,700
Administration	447,150	457,088	449,753	7,335
Fiscal	179,526	180,526	174,194	6,332
Operation and Maintenance of Plant	564,562	576,335	549,946	26,389
Pupil Transportation	213,464	209,064	204,912	4,152
Central	1,897	1,897	1,068	829
Extracurricular Activities	155,281	155,281	150,698	4,583
Capital Outlay		5,000	5,000	
Total Expenditures	<u>5,229,608</u>	<u>5,321,125</u>	<u>5,223,364</u>	<u>97,761</u>
Excess of Revenues Under Expenditures	<u>(318,227)</u>	<u>(243,072)</u>	<u>(64,520)</u>	<u>178,552</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	6,000	6,000	3,137	(2,863)
Advances In	10,000	10,000		(10,000)
Advances Out	(10,000)	(11,003)	(11,003)	
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>4,997</u>	<u>(7,866)</u>	<u>(12,863)</u>
Changes in Fund Balance	(312,227)	(238,075)	(72,386)	165,689
Fund Balance at Beginning of Year	3,064,675	3,064,675	3,064,675	
Prior Year Encumbrances Appropriated	73,440	73,440	73,440	
Fund Balance at End of Year	<u>\$2,825,888</u>	<u>\$2,900,040</u>	<u>\$3,065,729</u>	<u>\$165,689</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, 2006**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$21,169</u></u>
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Liabilities:

Due to Students	<u><u>\$21,169</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, 2006**

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 580th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by thirty-one classified employees, forty-six certified teaching personnel, and three administrative employees who provide services to six hundred thirty-three 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 Regional School Improvement Team, 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, 2006
(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. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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, 2006
(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 only 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 2006. 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, 2006
(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, 2006, but which were levied to finance fiscal year 2007 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, 2006
(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 appropriations 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 appropriations 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".

During fiscal year 2006, 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, 2006.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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 2006 was \$137,326, which includes \$3,813 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, 2006, 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, 2006
(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	5 - 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, 2006
(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, 2006, 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. 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.

Q. Extraordinary and Special Items

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

R. 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 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

NOTE 4 - ACCOUNTABILITY

A. Accountability

At June 30, 2006, the Food Service, EMIS, and Title I special revenue funds had deficit fund balances, in the amount of \$27,927, \$31, and \$9,953, 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.

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).

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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

Changes in Fund Balance	
GAAP Basis	(\$3,898)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	353,936
Accrued FY 2006, Not Yet Received in Cash	(350,406)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(637,675)
Accrued FY 2006, Not Yet Paid in Cash	589,911
Prepaid Items	35,614
Materials and Supplies Inventory	2,316
Advances Out	(11,003)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(51,181)
Budget Basis	(\$72,386)

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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;
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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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, \$2,720,898 of the School District's bank balance of \$3,020,898 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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.

Investments

As of June 30, 2006, the carrying value of funds on deposit with STAR Ohio was \$426,661. The School District's investments in STAR Ohio have an average maturity of 34.8 days. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy for interest rate or credit risk beyond the requirements of state statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, 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	\$493
Millstream	7,237
Total General Fund	<u>7,730</u>
Other Governmental Funds	
Food Service	5,489
Public School Support	106
Preschool	1,003
Total Other Governmental Funds	<u>6,598</u>
Total Intergovernmental Receivables	<u><u>\$14,328</u></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.

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 9 - PROPERTY TAXES – (CONTINUED)

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

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, 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, 2006, was \$78,789 in the General Fund and \$9,211 in the Bond Retirement debt service fund. 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.

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, 2006
(Continued)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

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

	<u>2005 Second- Half Collections</u>		<u>2006 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$50,436,990	84.66%	\$51,739,850	86.60%
Industrial/Commercial	3,389,570	5.69	3,511,880	5.88
Public Utility	3,123,070	5.24	2,627,450	4.40
Tangible Personal	2,629,603	4.41	1,864,205	3.12
Total Assessed Value	<u>\$59,579,233</u>	<u>100.00%</u>	<u>\$59,743,385</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.90		\$33.76	

NOTE 10 - CAPITAL ASSETS

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

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$309,090			\$309,090

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Depreciable Capital Assets				
Land Improvements	\$159,214	\$2,150		\$161,364
Buildings and Building Improvements	4,274,052	27,642		4,301,694
Furniture, Fixtures, and Equipment	917,063	66,326	(\$63,277)	920,112
Vehicles	456,228	3,600		459,828
Infrastructure	11,856			11,856
Total Depreciable Capital Assets	<u>5,818,413</u>	<u>99,718</u>	<u>(63,277)</u>	<u>5,854,854</u>
Less Accumulated Depreciation				
Land Improvements	(51,061)	(4,692)		(55,753)
Buildings and Building Improvements	(832,041)	(64,377)		(896,418)
Furniture, Fixtures, and Equipment	(567,260)	(51,096)	59,532	(558,824)
Vehicles	(286,627)	(29,908)		(316,535)
Infrastructure	(968)	(237)		(1,205)
Total Accumulated Depreciation	<u>(1,737,957)</u>	<u>(150,310)</u>	<u>59,532</u>	<u>(1,828,735)</u>
Depreciable Capital Assets, Net	<u>4,080,456</u>	<u>(50,592)</u>	<u>(3,745)</u>	<u>4,026,119</u>
Governmental Activities Capital Assets, Net	<u>\$4,389,546</u>	<u>(\$50,592)</u>	<u>(\$3,745)</u>	<u>\$4,335,209</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$42,105
Special	2,040
Vocational	2,249
Support Services:	
Pupils	4,483
Instructional Staff	1,735
Administration	657
Fiscal	593
Operation and Maintenance of Plant	38,861
Pupil Transportation	30,801
Non-Instructional Services	4,550
Extracurricular Activities	22,236
Total Depreciation Expense	<u>\$150,310</u>

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 11 - INTERFUND ASSETS/LIABILITIES

At June 30, 2006, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$21,003, for a short-term loan and to provide cash flow resources until the receipt of grant monies.

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 2006, the School District contracted for the following insurance coverage.

Coverage provided by the 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 the 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 participants' 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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.

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, 2006, 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, 2006, 2005, and 2004, was \$326,153, \$317,710, and \$297,434, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$420 made by the School District and \$406 made by plan members.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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, 2006, 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 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$76,688, \$73,963, and \$60,333, respectively; 44 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

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, 2006, 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 2006, 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 \$25,121.

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

NOTE 14 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available). 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.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$39,286 for fiscal year 2006.

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 (the latest information available), 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 not be sufficient, 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, 2006
(Continued)**

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
FY00 Refunding School Improvement Bonds					
Serial Bonds 4-4.95%	\$225,000		\$115,000	\$110,000	\$110,000
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>167,773</u>	<u>\$14,319</u>		<u>182,092</u>	
Total General Obligation Bonds	911,983	14,319	115,000	811,302	110,000
Compensated Absences Payable	<u>451,775</u>	<u>66,538</u>	<u>43,101</u>	<u>475,212</u>	<u>23,422</u>
Total Governmental Activities Long -Term Obligations	<u>\$1,363,758</u>	<u>\$80,857</u>	<u>\$158,101</u>	<u>\$1,286,514</u>	<u>\$133,422</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, 2006
(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 2006, \$14,319 was accreted on the capital appreciation bonds for a total outstanding bond value of \$276,302 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 \$4,351,235 with an unvoted debt margin of \$55,338 at June 30, 2006.

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

NOTE 16 - LONG-TERM OBLIGATIONS – (CONTINUED)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds				Total
	Serial	Term	Capital Appreciation	Interest	
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		\$90,000		20,660	110,660
2012-2015		335,000		36,428	371,428
	<u>\$110,000</u>	<u>\$425,000</u>	<u>\$94,210</u>	<u>\$372,842</u>	<u>\$1,002,052</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 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$29,681)	\$63,465
Current Year Set Aside Requirement	90,507	90,507
Qualifying Expenditures	(127,584)	(42,780)
Balance June 30, 2006		<u>\$111,192</u>
Amount Carried Forward to Fiscal Year 2007	<u>(\$66,758)</u>	<u>\$111,192</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
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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 2006, the School District paid \$10,454 to NOACSC for various services. Financial information can be obtained from NOACSC, 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, 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, 2006
(Continued)**

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

E. West Central Regional School Improvement Team

The West Central Regional School Improvement Team (Team) 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 Team 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 the 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 participants' 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 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, 2006
(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, 2006.

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, 2006 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.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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