



**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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

January 15, 2009

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Arcadia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- In total, net assets increased significantly (31 percent). The School District passed a four-year 6.9 mill emergency levy in March 2004 and a five-year 1 percent income tax levy in November 2004. The School District has received more revenue from the income tax levy than was projected by the Ohio Department of Taxation.
- General revenues accounted for 80 percent of total revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.
- After an increase in enrollment in fiscal year 2006 of thirty-one students, enrollment decreased in fiscal year 2007 by twenty-one students.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Arcadia Local School District, the General Fund 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 2007. 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are presented as governmental activities and 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 and fiscal year 2006:

	Table 1 Net Assets		
	Governmental Activities		
	2007	2006	Change
<u>Assets:</u>			
Current and Other Assets	\$4,936,435	\$4,345,297	\$591,138
Capital Assets, Net	1,573,077	1,459,776	113,301
Total Assets	<u>6,509,512</u>	<u>5,805,073</u>	<u>704,439</u>
<u>Liabilities:</u>			
Current and Other Liabilities	\$2,709,935	\$2,842,214	\$132,279
Long-Term Liabilities	388,031	357,773	(30,258)
Total Liabilities	<u>3,097,966</u>	<u>3,199,987</u>	<u>102,021</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	1,503,013	1,284,661	218,352
Restricted	377,496	490,818	(113,322)
Unrestricted	1,531,037	829,607	701,430
Total Net Assets	<u>\$3,411,546</u>	<u>\$2,605,086</u>	<u>\$806,460</u>

Several significant changes from the prior fiscal year are reflected in the above table. There was an increase of over \$591,000 in current and other assets, which was basically an increase in cash and cash equivalents. This increase is generally due to property taxes and income taxes from the 2004 emergency and income tax levies in excess of those estimated as well as simply maintaining spending well below revenues collected. As a result, there were additional carryover resources at the end of the fiscal year. This increase is also reflected in the increase in unrestricted net assets. Both capital assets and invested in capital assets increased due to asset acquisitions made in fiscal year 2007.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

Table 2
Change in Net Assets Governmental Activities

	2007	2006	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$796,984	\$965,901	(\$168,917)
Operating Grants, Contributions and Interest	501,688	526,912	(25,224)
Capital Grants, Contributions and Interest	23,093	73,661	(50,568)
Total Program Revenues	<u>1,321,765</u>	<u>1,566,474</u>	<u>(244,709)</u>
General Revenues			
Property Taxes Levied for General Purposes	\$2,142,514	\$2,088,632	\$53,882
Property Taxes Levied for Debt Service	3,508		3,508
Property Taxes Levied for Permanent Improvement	120,648	154,659	(34,011)
Income Taxes Levied for General Purposes	744,091	627,233	116,858
Grants and Entitlements	2,090,325	2,121,578	(31,253)
Interest	120,468	54,402	66,066
Gifts and Donations	12,287	11,127	1,160
Miscellaneous	40,373	30,749	9,624
Total General Revenues	<u>5,274,214</u>	<u>5,088,380</u>	<u>185,834</u>
Total Revenues	<u>6,595,979</u>	<u>6,654,854</u>	<u>(58,875)</u>
<u>Expenses</u>			
Instruction:			
Regular	2,598,759	2,502,590	(96,169)
Special	490,004	399,877	(90,127)
Vocational	228,522	284,792	56,270
Support Services:			
Pupils	272,360	225,179	(47,181)
Instructional Staff	219,888	145,781	(74,107)
Board of Education	12,412	13,091	679
Administration	496,117	457,734	(38,383)
Fiscal	178,213	157,970	(20,243)
Operation and Maintenance of Plant	530,772	489,049	(41,723)
Pupil Transportation	293,931	302,289	8,358
Central	1,724	1,461	(263)
Non-Instructional Services	210,640	224,777	14,137
Extracurricular Activities	251,612	250,754	(858)
Interest and Fiscal Charges	4,565	8,349	3,784
Total Expenses	<u>5,789,519</u>	<u>5,463,693</u>	<u>(325,826)</u>
Increase in Net Assets	806,460	1,191,161	(384,701)
Net Assets at Beginning of Year	2,605,086	1,413,925	1,191,161
Net Assets at End of Year	<u>\$3,411,546</u>	<u>\$2,605,086</u>	<u>\$806,460</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

While overall revenues changed less than 1 percent from the prior fiscal year, there was a somewhat significant decrease in program revenues. Charges for services decreased due to a decrease in tuition and fees (fewer students) and the School District received a \$58,000 donation in fiscal year 2006 which was reflected in capital grants and contributions. General revenues did not change significantly from fiscal year 2006; however, there was a 19 percent increase in income taxes and a nice increase in interest revenue based on better interest rates and additional resources invested.

With a 6 percent increase in total expenses in fiscal year 2007, expenses remained fairly comparable to fiscal year 2006 with generally modest increases for most programs. Not surprisingly, the major expense is for instruction, which accounts for 57 percent of total expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 14 percent of total expenses. Maintenance of the School District's facilities also represents a significant expense, over 9 percent. Therefore, approximately 80 percent of the School District's expenses are directly 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	
	2007	2006	2007	2006
Instruction:				
Regular	\$2,598,759	\$2,502,590	\$1,949,810	\$1,683,499
Special	490,004	399,877	273,119	193,356
Vocational	228,522	284,792	208,913	264,476
Support Services:				
Pupils	272,360	225,179	126,063	85,276
Instructional Staff	219,888	145,781	219,888	145,781
Board of Education	12,412	13,091	12,412	13,091
Administration	496,117	457,734	496,117	457,734
Fiscal	178,213	157,970	178,213	157,970
Operation and Maintenance of Plant	530,772	489,049	529,144	484,803
Pupil Transportation	293,931	302,289	289,171	299,107
Central	1,724	1,461	1,724	1,461
Non-Instructional Services	210,640	224,777	15,264	(8,226)
Extracurricular Activities	251,612	250,754	163,351	110,542
Interest and Fiscal Charges	4,565	8,349	4,565	8,349
Total Expenses	<u>\$5,789,519</u>	<u>\$5,463,693</u>	<u>\$4,467,754</u>	<u>\$3,897,219</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately 25 percent of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. A substantial portion of special instruction and pupils costs are provided for through operating grants for special instruction programs. Almost 93 percent of the costs of the non-instructional program were paid for through cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, gate receipts at musical and athletic events, and donations restricted to the improvement of athletic activities and facilities.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance in the General Fund increased \$692,753, or 61 percent. While both revenues and expenditures remained fairly comparable to fiscal year 2006, revenues continued to exceed expenditures, therefore the increase in fund balance.

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 2007, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were not significant. Actual revenue amounts exceeded the final budget amounts for most revenue sources due to conservative revenue estimates. There was a decrease in tuition and fees due to a loss of students. For expenditures, changes from the original budget to the final budget and from the final budget to actual expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$1,573,077 invested in capital assets (net of accumulated depreciation), an increase of 8 percent. Additions for fiscal year 2007 included roof improvements, various equipment acquisitions, a new bus, and a pickup truck. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

At June 30, 2007, the School District had outstanding tax anticipation notes, in the amount of \$70,064. In addition, long-term obligations consisted of compensated absences, in the amount of \$388,031. Compensated absences will be paid from the General Fund and the Food Service special revenue fund. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Current Issues

Voters approved a four-year emergency levy in March 2004 to raise approximately \$440,000 annually. In November 2004, the voters also approved a five-year 1 percent income tax levy to raise approximately \$584,000 annually. This levy has produced significantly more revenue than was projected by the Ohio Department of Taxation.

A 1.5 mill replacement levy for permanent improvements was defeated by the voters in November 2005. This defeat will negatively impact the General Fund as these permanent improvement expenditures will be paid from the General Fund.

The School District accepts open enrollment of students from other school districts. During the 2006/2007 school year, ninety-nine students from other school districts attended Arcadia Local School District under the open enrollment program while only twenty-nine students left our school district to attend other schools. This resulted in \$541,012 in open enrollment revenues and \$161,618 in expenses.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Melissa Patch, Treasurer, Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2007**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,398,580
Cash and Cash Equivalents	
with Fiscal Agents	1,013
Accounts Receivable	3,806
Accrued Interest Receivable	2,033
Intergovernmental Receivable	25,736
Prepaid Items	6,550
Inventory Held for Resale	2,357
Materials and Supplies Inventory	7,189
Income Taxes Receivable	402,100
Property Taxes Receivable	2,087,071
Nondepreciable Capital Assets	27,410
Depreciable Capital Assets, Net	1,545,667
Total Assets	6,509,512
 <u>Liabilities:</u>	
Accounts Payable	1,001
Accrued Wages and Benefits Payable	520,810
Intergovernmental Payable	139,619
Accrued Interest Payable	68
Notes Payable	70,064
Matured Bonds Payable	1,000
Matured Interest Payable	13
Deferred Revenue	1,977,360
Long-Term Liabilities:	
Due Within One Year	34,649
Due in More Than One Year	353,382
Total Liabilities	3,097,966
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,503,013
Restricted For:	
Set Asides	4,298
Debt Service	12,652
Capital Projects	267,771
Other Purposes	92,775
Unrestricted	1,531,037
Total Net Assets	\$3,411,546

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	
		Charges for Services	Operating Grants, Contributions, and Interest		Capital Grants, Contributions, and Interest
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,598,759	\$567,366	\$77,073	\$4,510	(\$1,949,810)
Special	490,004	13,861	203,024		(273,119)
Vocational	228,522		19,609		(208,913)
Support Services:					
Pupils	272,360		146,297		(126,063)
Instructional Staff	219,888				(219,888)
Board of Education	12,412				(12,412)
Administration	496,117				(496,117)
Fiscal	178,213				(178,213)
Operation and Maintenance of Plant	530,772			1,628	(529,144)
Pupil Transportation	293,931			4,760	(289,171)
Central	1,724				(1,724)
Non-Instructional Services	210,640	151,453	43,923		(15,264)
Extracurricular Activities	251,612	64,304	11,762	12,195	(163,351)
Interest and Fiscal Charges	4,565				(4,565)
Total Governmental Activities	<u>\$5,789,519</u>	<u>\$796,984</u>	<u>\$501,688</u>	<u>\$23,093</u>	<u>(4,467,754)</u>

General Revenues:

Property Taxes Levied for General Purposes	2,142,514
Property Taxes Levied for Debt Service	3,508
Property Taxes Levied for Permanent Improvements	120,648
Income Taxes Levied for General Purposes	744,091
Grants and Entitlements not Restricted to Specific Programs	2,090,325
Interest	120,468
Gifts and Donations	12,287
Miscellaneous	40,373
Total General Revenues	<u>5,274,214</u>
Change in Net Assets	806,460
Net Assets at Beginning of Year	<u>2,605,086</u>
Net Assets at End of Year	<u>\$3,411,546</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2007**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,011,582	\$377,940	\$2,389,522
Cash and Cash Equivalents			
with Fiscal Agents	1,013		1,013
Accounts Receivable	3,765	41	3,806
Accrued Interest Receivable	2,033		2,033
Intergovernmental Receivable	9,325	16,411	25,736
Prepaid Items	5,305	1,245	6,550
Inventory Held for Resale		2,357	2,357
Materials and Supplies Inventory	6,301	888	7,189
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	9,058		9,058
Income Taxes Receivable	402,100		402,100
Property Taxes Receivable	2,022,277	64,794	2,087,071
Total Assets	\$4,472,759	\$463,676	\$4,936,435
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$1,001		\$1,001
Accrued Wages and Benefits Payable	503,182	\$17,628	520,810
Intergovernmental Payable	130,952	8,667	139,619
Accrued Interest Payable		68	68
Notes Payable		70,064	70,064
Matured Bonds Payable	1,000		1,000
Matured Interest Payable	13		13
Deferred Revenue	2,005,339	59,706	2,065,045
Total Liabilities	2,641,487	156,133	2,797,620
<u>Fund Balances:</u>			
Reserved for Property Taxes	82,434	5,088	87,522
Reserved for Textbooks	4,298		4,298
Reserved for Bus Purchase	4,760		4,760
Reserved for Encumbrances	54,215	15,036	69,251
<u>Unreserved, Reported in:</u>			
General Fund	1,685,565		1,685,565
Special Revenue Funds		95,249	95,249
Debt Service Fund		10,436	10,436
Capital Projects Funds		181,734	181,734
Total Fund Balances	1,831,272	307,543	2,138,815
Total Liabilities and Fund Balances	\$4,472,759	\$463,676	\$4,936,435

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007**

Total Governmental Fund Balances		\$2,138,815
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,573,077
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	\$2,140	
Income Taxes Receivable	63,356	
Property Taxes Receivable	22,189	
	<u>87,685</u>	87,685
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(388,031)</u>
Net Assets of Governmental Activities		<u><u>\$3,411,546</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007**

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$2,156,284	\$124,808	\$2,281,092
Income Taxes	708,207		708,207
Intergovernmental	2,228,938	358,630	2,587,568
Interest	120,468	15,776	136,244
Tuition and Fees	581,469		581,469
Extracurricular Activities		64,304	64,304
Charges for Services		151,453	151,453
Gifts and Donations	10,775	13,274	24,049
Miscellaneous	8,648	31,725	40,373
Total Revenues	<u>5,814,789</u>	<u>759,970</u>	<u>6,574,759</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	2,437,853	68,143	2,505,996
Special	434,402	55,342	489,744
Vocational	224,512		224,512
Support Services:			
Pupils	128,777	143,462	272,239
Instructional Staff	202,232	17,277	219,509
Board of Education	12,412		12,412
Administration	498,002	3,776	501,778
Fiscal	178,254	2,630	180,884
Operation and Maintenance of Plant	540,176	4,756	544,932
Pupil Transportation	313,527	23,251	336,778
Central	500	1,224	1,724
Non-Instructional Services		203,704	203,704
Extracurricular Activities	137,622	133,979	271,601
Capital Outlay	13,767	88,417	102,184
Debt Service:			
Interest and Fiscal Charges		4,565	4,565
Total Expenditures	<u>5,122,036</u>	<u>750,526</u>	<u>5,872,562</u>
Changes in Fund Balances	692,753	9,444	702,197
Fund Balances at Beginning of Year	1,138,519	298,099	1,436,618
Fund Balances at End of Year	<u>\$1,831,272</u>	<u>\$307,543</u>	<u>\$2,138,815</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2007**

Changes in Fund Balances - Total Governmental Funds \$702,197

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

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

Capital Outlay	194,354	
Depreciation	(71,583)	
	122,771	122,771

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. (9,470)

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

Property Taxes	(14,422)	
Income Taxes	35,884	
Tuition and Fees	(242)	
	21,220	21,220

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. (30,258)

Change in Net Assets of Governmental Activities \$806,460

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$2,052,785	\$2,087,033	\$2,224,584	\$137,551
Income Taxes	525,000	525,000	685,480	160,480
Intergovernmental	2,036,578	2,036,578	2,228,938	192,360
Interest	28,600	28,600	120,312	91,712
Tuition and Fees	717,245	717,245	574,780	(142,465)
Gifts and Donations	10,500	10,500	10,775	275
Miscellaneous	5,300	5,300	3,214	(2,086)
Total Revenues	<u>5,376,008</u>	<u>5,410,256</u>	<u>5,848,083</u>	<u>437,827</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,510,217	2,488,829	2,422,610	66,219
Special	441,823	467,425	450,855	16,570
Vocational	316,545	316,545	266,559	49,986
Support Services:				
Pupils	126,483	126,483	122,230	4,253
Instructional Staff	182,948	195,218	188,762	6,456
Board of Education	13,170	13,170	13,020	150
Administration	496,274	496,274	487,729	8,545
Fiscal	175,217	176,482	176,474	8
Operation and Maintenance of Plant	491,022	546,594	544,168	2,426
Pupil Transportation	327,344	334,344	312,244	22,100
Central	1,700	1,700	500	1,200
Extracurricular Activities	114,602	147,990	147,710	280
Capital Outlay	8,279	13,801	13,801	
Total Expenditures	<u>5,205,624</u>	<u>5,324,855</u>	<u>5,146,662</u>	<u>178,193</u>
Excess of Revenues Over Expenditures	<u>170,384</u>	<u>85,401</u>	<u>701,421</u>	<u>616,020</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	2,000	2,000	4,057	2,057
Refund of Prior Year Receipts	(300)	(300)	(18)	282
Total Other Financing Sources (Uses)	<u>1,700</u>	<u>1,700</u>	<u>4,039</u>	<u>2,339</u>
Changes in Fund Balance	172,084	87,101	705,460	618,359
Fund Balance at Beginning of Year	1,185,386	1,185,386	1,185,386	
Prior Year Encumbrances Appropriated	73,540	73,540	73,540	
Fund Balance at End of Year	<u>\$1,431,010</u>	<u>\$1,346,027</u>	<u>\$1,964,386</u>	<u>\$618,359</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$25,970</u></u>
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Liabilities:

Undistributed Assets	\$73
Due to Students	<u>25,897</u>
Total Liabilities	<u><u>\$25,970</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1937. The School District serves an area of approximately sixty-one square miles. It is located in Hancock and Seneca Counties. The School District is the 583rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty-five classified employees, forty-four certified teaching personnel, and four administrative employees who provide services to six hundred forty-two students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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 reported in two categories, governmental and fiduciary.

Governmental Funds

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund 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 2007. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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 yearend: 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 have been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

E. Budgetary Process

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

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

The 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".

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

During fiscal year 2007, 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, 2007.

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 2007 was \$120,468, which includes \$7,162 assigned from other School District funds.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

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, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either 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 textbooks and other instructional materials and unexpended revenues restricted for the purchase of school buses.

J. Capital Assets

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

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, 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.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants. 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, 2007, the School District did not have any net assets restricted by enabling legislation.

N. Fund Balance Reserves

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

O. Interfund Activity

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

P. 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 - ACCOUNTABILITY

At June 30, 2007, the Permanent Improvement capital projects fund had a deficit fund balance, in the amount of \$43,968, due to reporting the liability for notes in the fund receiving the proceeds. The deficit will be alleviated when the notes are paid.

NOTE 4 - 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).

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 4 - 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	\$692,753
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2006, Received in Cash FY 2007	471,512
Accrued FY 2007, Not Yet Received in Cash	(434,161)
Expenditure Accruals:	
Accrued FY 2006, Paid in Cash FY 2007	(606,028)
Accrued FY 2007, Not Yet Paid in Cash	635,135
Prepaid Items	392
Materials and Supplies Inventory	2,111
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(56,254)
Budget Basis	\$705,460

NOTE 5 - 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - 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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation 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.

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, \$2,176,219 of the School District's bank balance of \$2,349,088 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 uninsured public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Investments

As of June 30, 2007, the fair value of funds on deposit with STAR Ohio was \$114,979. The School District's investment in STAR Ohio had an average maturity of 38.56 days. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy regarding 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.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2007, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, 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, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Ohio Department of Education	\$8,829
Ohio Department of Taxation	496
Total General Fund	9,325
Other Governmental Funds	
Lunchroom	5,663
Miscellaneous State	8,403
Title I	2,345
Total Other Governmental Funds	16,411
Total Governmental Activities	\$25,736

NOTE 7 - INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, for five years. 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, 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 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, 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 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. 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, is 12.5 percent for 2007. This will be reduced to 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 and Seneca Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2007, are available to finance fiscal year 2007 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, 2007, 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, 2007, was \$82,434 in the General Fund and \$5,088 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$150,734 in the General Fund and \$9,266 in the Permanent Improvement capital projects fund.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 8 - PROPERTY TAXES – (CONTINUED)

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.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$50,240,000	73.23%	\$51,381,330	74.07%
Industrial/Commercial	6,346,840	9.25	6,391,930	9.21
Public Utility	10,075,540	14.69	10,171,890	14.67
Tangible Personal	1,941,902	2.83	1,423,201	2.05
Total Assessed Value	<u>\$68,604,282</u>	<u>100%</u>	<u>\$69,368,351</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$43.43		\$43.11	

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$27,410			\$27,410
Depreciable Capital Assets				
Land Improvements	177,064			177,064
Buildings and Building Improvements	1,202,290	\$45,362		1,247,652
Furniture, Fixtures, and Equipment	554,909	55,706	(\$8,662)	601,953
Vehicles	401,560	93,286	(6,200)	488,646
Total Depreciable Capital Assets	<u>2,335,823</u>	<u>194,354</u>	<u>(14,862)</u>	<u>2,515,315</u>
Less Accumulated Depreciation				
Land Improvements	(27,260)	(3,410)		(30,670)
Buildings and Building Improvements	(351,416)	(23,364)		(374,780)
Furniture, Fixtures, and Equipment	(324,462)	(21,734)	1,155	(345,041)
Vehicles	(200,319)	(23,075)	4,237	(219,157)
Total Accumulated Depreciation	<u>(903,457)</u>	<u>(71,583)</u>	<u>5,392</u>	<u>(969,648)</u>
Depreciable Capital Assets, Net	<u>1,432,366</u>	<u>122,771</u>	<u>(9,470)</u>	<u>1,545,667</u>
Governmental Activities Capital Assets, Net	<u>\$1,459,776</u>	<u>\$122,771</u>	<u>(\$9,470)</u>	<u>\$1,573,077</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 9 - CAPITAL ASSETS – (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$7,757
Special	260
Vocational	1,210
Support Services:	
Pupils	121
Instructional Staff	949
Administration	245
Fiscal	328
Operation and Maintenance of Plant	15,642
Pupil Transportation	23,585
Non-Instructional Services	6,175
Extracurricular Activities	15,311
Total Depreciation Expense	<u>\$71,583</u>

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted for the following insurance coverage:

Coverage provided by Indiana Insurance Company is as follows:

Building and Contents/Boiler and Machinery	\$15,000,000
General School District Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Umbrella Liability	2,000,000

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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 10 - RISK MANAGEMENT – (CONTINUED)

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.

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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, 2007, 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, 2007, 2006, and 2005, was \$314,410, \$297,765, and \$293,124, respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$1,360 made by the School District and \$10,625 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2007, 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 2007 was 14 percent of annual covered payroll; 10.68 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, 2007, 2006, and 2005 was \$68,833, \$65,288, and \$60,489, respectively; 45 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

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, 2007, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion 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 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$24,290.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000, and STRS had 122,934 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, 2007, employer contributions to fund health care benefits were 3.32 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$34,288 for fiscal year 2007.

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, 2006 (the latest available information), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 13 - OTHER EMPLOYEE BENEFITS – (CONTINUED)

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

B. Health Care Benefits

The School District provides medical, dental, and 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 Fort Dearborn Life Insurance. 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.

NOTE 14 - NOTES PAYABLE

During fiscal year 2003, the School District issued \$500,500 in tax anticipation notes for the construction of a handicap entrance and a roof replacement. The notes were issued under the authority of Ohio Revised Code Section 133.24 for a five year period, with final maturity during fiscal year 2008. The notes have an interest rate of 3.62 percent. During fiscal year 2007, principal, in the amount of \$105,051, was retired from the Permanent Improvement capital projects fund. The outstanding balance at June 30, 2007, was \$70,064.

Principal and interest requirements to retire the notes during fiscal year 2008 are \$70,064 and \$423, respectively.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07	Amounts Due Within One Year
Governmental Activities					
Compensated Absences Payable	\$357,773	\$30,258		\$388,031	\$34,649

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

The School District's overall debt margin was \$5,144,029 with an unvoted debt margin of \$57,934 at June 30, 2007.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 16 - SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2007.

	Textbooks	Capital Improvements
Balance June 30, 2006	\$1,481	
Current Year Set Aside Requirement	94,111	\$94,111
Current Year Offsets		(94,111)
Qualifying Expenditures	(91,294)	
Reserve Balance June 30, 2007	\$4,298	

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2007, the School District paid \$11,193 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

C. Hancock County Local Professional Development Committee

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

D. Northwestern Ohio Educational Research Council, Inc.

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

E. West Central Regional Professional Development Center

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

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 18 - INSURANCE POOLS

A. Hancock County Schools Insurance Consortium Group Health Plan

The Hancock County Schools Insurance Consortium Group Health Plan (Plan) is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Mental Retardation/Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each 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.

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

NOTE 19 - 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, 2007.

B. Litigation

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District Board of Education is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

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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**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the District's management in a separate letter dated January 15, 2009.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, and Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 15, 2009



Mary Taylor, CPA
Auditor of State

ARCADIA LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2009**