



**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 16, 2007

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2005 are as follows:

- Net assets increased significantly in fiscal year 2005, \$672,501, or 91 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 began collecting revenue from both of these levies in fiscal year 2005.
- The School District received a donation in fiscal year 2005 of \$ 166,000. The donation is to be used for improving athletic programs and facilities.
- For fiscal year 2005, the School District received \$77,977 more than the prior fiscal year for the reimbursement for the loss of the assessed value of personal property of electric and gas utilities. This is the result of Senate Bill 3 and Senate Bill 287.
- General revenues accounted for 72 percent of total revenues and reflect the School District's significant dependence on property taxes and unrestricted state entitlements.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 includes instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

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

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

Table 1
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$3,158,030	\$2,403,512
Capital Assets, Net	1,522,302	1,530,559
Total Assets	4,680,332	3,934,071
<u>Liabilities:</u>		
Current and Other Liabilities	2,914,741	2,826,186
Long-Term Liabilities	351,666	366,461
Total Liabilities	3,266,407	3,192,647
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,245,916	1,156,547
Restricted	412,773	259,095
Unrestricted (Deficit)	(244,764)	(674,218)
Total Net Assets	\$1,413,925	\$741,424

Several significant changes from the prior fiscal year are reflected in the above table. Three factors contributed to the 31 percent increase in current and other assets, an increase in cash and cash equivalents resulting from an increase in the loss reimbursement for personal property taxes, a sizable donation of \$166,000, and one-half year of collections on the 6.9 mill emergency levy; an increase in property taxes receivable to reflect a full year of collections on this levy; and an increase in income taxes receivable to reflect the new 1 percent levy approved by voters in November 2004.

The donation is also the reason for the increase in restricted net assets and these monies were restricted by the donor. While unrestricted net assets remain in a deficit, the effect of the property taxes, income taxes, and loss reimbursement greatly improved this balance by reducing the deficit by 64 percent.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

Table 2
Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$920,219	\$840,668
Operating Grants, Contributions, and Interest	493,077	430,711
Capital Grants, Contributions, and Interest	181,443	6,320
Total Program Revenues	<u>1,594,739</u>	<u>1,277,699</u>
General Revenues		
Property Taxes Levied for General Purposes	1,919,844	1,755,681
Property Taxes Levied for Permanent Improvements	162,551	181,580
Income Taxes Levied for General Purposes	162,990	
Grants and Entitlements	1,884,600	1,713,928
Interest	10,586	4,732
Gifts and Donations	2,609	21,225
Miscellaneous	30,289	45,309
Total General Revenues	<u>4,173,469</u>	<u>3,722,455</u>
Total Revenues	<u>5,768,208</u>	<u>5,000,154</u>
<u>Expenses</u>		
Instruction:		
Regular	2,386,812	2,245,066
Special	468,116	411,722
Vocational	231,575	242,191
Support Services:		
Pupils	76,688	168,839
Instructional Staff	137,630	193,091
Board of Education	15,790	17,946
Administration	458,130	461,595
Fiscal	160,573	134,820
Operation and Maintenance of Plant	439,169	416,397
Pupil Transportation	267,703	273,111
Central	2,549	1,439
Non-Instructional Services	213,502	187,800
Extracurricular Activities	225,872	212,610
Interest and Fiscal Charges	11,598	15,955
Total Expenses	<u>5,095,707</u>	<u>4,982,582</u>
Increase in Net Assets	<u>\$672,501</u>	<u>\$17,572</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

The percentage of program revenues (which generally consist of tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues), to total revenues remained fairly comparable to that of the prior fiscal year as did the percentage of general revenues (generally property taxes and unrestricted state entitlements) to total revenues. However, note that both program and general revenues reflect substantial increases from the prior fiscal year. The reasons, as previously identified, include a significant donation and two new tax levies.

With only a 2 percent increase in total expenses in fiscal year 2005, expenses remained quite comparable for each program. Not surprisingly, the major expense is for instruction, which accounts for 61 percent to total expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 9 percent of total expenses. Maintenance of the School District's facilities also represents a significant expense, almost 9 percent. Therefore, approximately 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$2,386,812	\$2,245,066	\$1,593,831	\$1,527,830
Special	468,116	411,722	172,958	146,823
Vocational	231,575	242,191	208,862	216,767
Support Services:				
Pupils	76,688	168,839	71,688	163,839
Instructional Staff	137,630	193,091	137,630	193,091
Board of Education	15,790	17,946	15,790	17,946
Administration	458,130	461,595	458,130	461,595
Fiscal	160,573	134,820	160,573	134,820
Operation and Maintenance of Plant	439,169	416,397	437,250	414,851
Pupil Transportation	267,703	273,111	262,804	268,337
Central	2,549	1,439	2,549	1,439
Non-Instructional Services	213,502	187,800	1,748	1,462
Extracurricular Activities	225,872	212,610	(34,443)	140,128
Interest and Fiscal Charges	11,598	15,955	11,598	15,955
Total Expenses	<u>\$5,095,707</u>	<u>\$4,982,582</u>	<u>\$3,500,968</u>	<u>\$3,704,883</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 one-third of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. A substantial portion of special instruction costs are provided for through operating grants for special instruction programs. Almost all of the costs of the non-instructional program are paid for with cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, and gate receipts at musical and athletic events. For fiscal year 2005, program revenues exceeded the costs of providing extracurricular activities due the donation received and 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. Both of the School District's major funds had a significant increase in fund balance from the prior fiscal year. The General Fund's increase is primarily the result of the emergency and income tax levies.

The Permanent Improvement Fund's increase is because planned improvements have been completed and the growth of revenues exceeded expenditures for fiscal year 2005.

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 2005, the School District amended its General Fund budget as needed. Note, however, that changes from the original to final budget as well as to actual revenues received were minor. This too was the situation for budgeted and actual expenditures. The positive aspect in fiscal year 2005 was that revenues exceeded expenditures, something that did not happen in fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$1,522,302 invested in capital assets (net of accumulated depreciation), a decrease of \$8,257, or less than 1 percent. The decrease is the result of current year depreciation exceeding additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2005, the School District had outstanding tax anticipation notes, in the amount of \$276,386. In addition, long-term obligations consisted of compensated absences, in the amount of \$351,666. 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 16 to the basic financial statements.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Current Issues

Voters approved a four-year emergency levy in March 2004 that will raise approximately \$440,000 annually. In November 2005, the voters also approved a five-year 1 percent income tax levy that will raise approximately \$584,000 annually.

The School District received a donation of \$166,000 that will be used to enhance the sports programs and facilities.

The School District accepts open enrollment of students from other school districts. During the 2004-2005 school year, one hundred twenty-five students from other school districts attended Arcadia Local Schools under the open enrollment program while only twenty-nine students left our school district to attend other schools. This resulted in \$626,285 in open enrollment revenues and \$141,634 in expenses.

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. These expenditures will now become expenditures of the General Fund.

In June 2005, the Arcadia Board of Education and the Arcadia Teachers Organization entered into a new three-year agreement.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda Schubert, Treasurer Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804-9714.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$748,673
Cash and Cash Equivalents	
with Fiscal Agents	8,886
Accounts Receivable	2,140
Accrued Interest Receivable	326
Intergovernmental Receivable	10,698
Prepaid Items	36,663
Inventory Held for Resale	2,569
Materials and Supplies Inventory	6,996
Income Taxes Receivable	133,853
Property Taxes Receivable	2,207,226
Nondepreciable Capital Assets	27,410
Depreciable Capital Assets, Net	1,494,892
Total Assets	4,680,332
 <u>Liabilities:</u>	
Accounts Payable	2,025
Accrued Wages and Benefits Payable	501,682
Intergovernmental Payable	123,518
Accrued Interest Payable	284
Notes Payable	276,386
Matured Bonds Payable	1,000
Matured Interest Payable	13
Deferred Revenue	2,009,833
Long-Term Liabilities:	
Due Within One Year	9,551
Due in More Than One Year	342,115
Total Liabilities	3,266,407
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,245,916
Restricted For:	
Set Asides	19,964
Debt Service	9,144
Capital Projects	250,163
Other Purposes	133,502
Unrestricted (Deficit)	(244,764)
Total Net Assets	\$1,413,925

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	Program Revenues			Net (Expense) Revenue and Change in Net Assets Governmental Activities	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest		Capital Grants, Contributions, and Interest
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,386,812	\$680,031	\$106,335	\$6,615	(\$1,593,831)
Special	468,116	15,980	279,178		(172,958)
Vocational	231,575		22,713		(208,862)
Support Services:					
Pupils	76,688		5,000		(71,688)
Instructional Staff	137,630				(137,630)
Board of Education	15,790				(15,790)
Administration	458,130				(458,130)
Fiscal	160,573				(160,573)
Operation and Maintenance of Plant	439,169			1,919	(437,250)
Pupil Transportation	267,703			4,899	(262,804)
Central	2,549				(2,549)
Non-Instructional Services	213,502	151,292	60,462		(1,748)
Extracurricular Activities	225,872	72,916	19,389	168,010	34,443
Interest and Fiscal Charges	11,598				(11,598)
Total Governmental Activities	<u>\$5,095,707</u>	<u>\$920,219</u>	<u>\$493,077</u>	<u>\$181,443</u>	<u>(3,500,968)</u>

General Revenues:

Property Taxes Levied for General Purposes	1,919,844
Property Taxes Levied for Permanent Improvements	162,551
Income Taxes Levied for General Purposes	162,990
Grants and Entitlements not Restricted to Specific Programs	1,884,600
Interest	10,586
Gifts and Donations	2,609
Miscellaneous	30,289
Total General Revenues	<u>4,173,469</u>
Change in Net Assets	672,501
Net Assets at Beginning of Year	741,424
Net Assets at End of Year	<u>\$1,413,925</u>

See Accompanying Notes to the Basic Financial Statements

See Accountant's Compilation

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$315,122	\$77,506	\$316,954	\$709,582
Cash and Cash Equivalents				
with Fiscal Agents	1,013		7,873	8,886
Accounts Receivable	1,821		319	2,140
Accrued Interest Receivable	326			326
Intergovernmental Receivable	10,698			10,698
Prepaid Items	34,626		2,037	36,663
Inventory Held for Resale			2,569	2,569
Materials and Supplies Inventory	6,364		632	6,996
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	39,091			39,091
Income Taxes Receivable	133,853			133,853
Property Taxes Receivable	2,057,236	149,990		2,207,226
Total Assets	\$2,600,150	\$227,496	\$330,384	\$3,158,030
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$1,079		\$946	\$2,025
Accrued Wages and Benefits Payable	473,789		27,893	501,682
Intergovernmental Payable	114,713		8,805	123,518
Accrued Interest Payable		284		284
Notes Payable		276,386		276,386
Matured Bonds Payable	1,000			1,000
Matured Interest Payable	13			13
Deferred Revenue	1,905,381	145,980		2,051,361
Total Liabilities	2,495,975	422,650	37,644	2,956,269
<u>Fund Balances:</u>				
Reserved for Property Taxes	181,148	4,010		185,158
Reserved for Textbooks	19,964			19,964
Reserved for Bus Purchase	19,127			19,127
Reserved for Encumbrances	79,835		16,240	96,075
<u>Unreserved, Reported in:</u>				
General Fund (Deficit)	(195,899)			(195,899)
Special Revenue Funds			101,562	101,562
Debt Service Fund			6,928	6,928
Capital Projects Funds (Deficit)		(199,164)	168,010	(31,154)
Total Fund Balances (Deficit)	104,175	(195,154)	292,740	201,761
Total Liabilities and Fund Balances	\$2,600,150	\$227,496	\$330,384	\$3,158,030

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, 2005**

Total Governmental Fund Balances	\$201,761
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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.	1,522,302
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$1,821	
Income Taxes Receivable	27,472	
Property Taxes Receivable	<u>12,235</u>	
		41,528

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(351,666)</u>
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Net Assets of Governmental Activities	<u><u>\$1,413,925</u></u>
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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, 2005**

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$1,942,416	\$164,760		\$2,107,176
Income Taxes	135,518			135,518
Intergovernmental	1,981,215	25,632	\$362,270	2,369,117
Interest	10,586	1,919	2,695	15,200
Tuition and Fees	695,178			695,178
Extracurricular Activities			72,916	72,916
Charges for Services			151,292	151,292
Gifts and Donations	601		187,397	187,998
Miscellaneous	2,679		27,610	30,289
Total Revenues	4,768,193	192,311	804,180	5,764,684
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,246,442		107,630	2,354,072
Special	283,501		184,394	467,895
Vocational	228,396			228,396
Support Services:				
Pupils	84,343		5,049	89,392
Instructional Staff	134,093		2,722	136,815
Board of Education	15,790			15,790
Administration	458,313		5,805	464,118
Fiscal	155,578	3,726	1,279	160,583
Operation and Maintenance of Plant	392,234	39,914	296	432,444
Pupil Transportation	254,929	1,842		256,771
Central			2,549	2,549
Non-Instructional Services			212,268	212,268
Extracurricular Activities	122,556		100,055	222,611
Capital Outlay	8,268	76,143	6,615	91,026
Debt Service:				
Interest and Fiscal Charges		11,598		11,598
Total Expenditures	4,384,443	133,223	628,662	5,146,328
Changes in Fund Balances	383,750	59,088	175,518	618,356
Fund Balances (Deficit) at Beginning of Year	(279,575)	(254,242)	117,222	(416,595)
Fund Balances (Deficit) at End of Year	<u>\$104,175</u>	<u>(\$195,154)</u>	<u>\$292,740</u>	<u>\$201,761</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, 2005**

Changes in Fund Balances - Total Governmental Funds \$618,356

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

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

Capital Outlay - Depreciable Capital Assets	\$60,414	
Depreciation	(68,458)	
		(8,044)

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. (213)

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

Property Taxes	(24,781)	
Income Taxes	27,472	
Tuition and Fees	833	
		3,524

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

Intergovernmental Payable	44,083	
Compensated Absences Payable	14,795	
		58,878

Change in Net Assets of Governmental Activities \$672,501

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, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$1,794,559	\$1,820,801	\$1,896,523	\$75,722
Income Taxes		35,000	29,137	(5,863)
Intergovernmental	1,872,339	1,875,488	1,981,215	105,727
Interest	5,000	5,000	10,260	5,260
Tuition and Fees	696,700	696,700	688,821	(7,879)
Gifts and Donations	10,500	10,500	601	(9,899)
Miscellaneous	3,000	3,300	3,122	(178)
Total Revenues	<u>4,382,098</u>	<u>4,446,789</u>	<u>4,609,679</u>	<u>162,890</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,252,756	2,268,057	2,248,726	19,331
Special	328,620	307,008	304,795	2,213
Vocational	243,601	269,801	268,651	1,150
Support Services:				
Pupils	96,146	95,508	95,419	89
Instructional Staff	142,938	141,884	140,265	1,619
Board of Education	19,319	25,319	24,989	330
Administration	466,405	466,405	455,839	10,566
Fiscal	152,087	151,705	151,399	306
Business				
Operation and Maintenance of Plant	388,877	394,877	393,494	1,383
Pupil Transportation	270,958	272,958	248,592	24,366
Central	40	40		40
Extracurricular Activities	140,641	129,441	115,611	13,830
Capital Outlay	8,612	9,368	8,990	378
Total Expenditures	<u>4,511,000</u>	<u>4,532,371</u>	<u>4,456,770</u>	<u>75,601</u>
Excess of Revenues Over (Under) Expenditures	<u>(128,902)</u>	<u>(85,582)</u>	<u>152,909</u>	<u>238,491</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	800	500		(500)
Refund of Prior Year Expenditures	3,000	3,000	245	(2,755)
Refund of Prior Year Receipts	(300)	(300)		300
Total Other Financing Sources (Uses)	<u>3,500</u>	<u>3,200</u>	<u>245</u>	<u>(2,955)</u>
Changes in Fund Balance	(125,402)	(82,382)	153,154	235,536
Fund Balance at Beginning of Year	91,386	91,386	91,386	
Prior Year Encumbrances Appropriated	11,265	11,265	11,265	
Fund Balance (Deficit) at End of Year	<u>(\$22,751)</u>	<u>\$20,269</u>	<u>\$255,805</u>	<u>\$235,536</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, 2005**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$22,558</u></u>
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Liabilities:

Undistributed Assets	187
Due to Students	<u>22,371</u>
Total Liabilities	<u><u>\$22,558</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, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1937. The School District serves an area of approximately seventy-two square miles. It is located in Hancock and Seneca Counties. The School District is the 582nd largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by twenty-four classified employees, forty-three certified teaching personnel, and four administrative employees who provide services to six hundred thirty-eight 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 18 and 19 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, 2005
(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.

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 two major governmental funds are the General Fund and 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, 2005
(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.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2005. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff-managed and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

During fiscal year 2005, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$10,586, which includes \$3,367 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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

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

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 year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2005, 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.

O. Interfund Transactions

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

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

P. Extraordinary and Special Items

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

Q. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES – (CONTINUED)

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

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

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

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2005, the Educational Management Information System and Title VI-R special revenue funds, and the Permanent Improvement capital projects fund had deficit fund balances, in the amount of \$56, \$2,286, and \$195,154, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The General Fund had original appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2005, in the amount of \$22,751. The School District made an adjustment once the income tax levy was approved.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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

Changes in Fund Balance	
GAAP Basis	\$383,750
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	140,284
Accrued FY 2005, Not Yet Received in Cash	(298,553)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(557,973)
Accrued FY 2005, Not Yet Paid in Cash	589,581
Cash Adjustments	
Unrecorded Activity FY 2005	(4,682)
Prepaid Items	(3,406)
Materials and Supplies Inventory	(2,121)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(93,726)
Budget Basis	\$153,154

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

At fiscal year end, the School District had \$7,873 in cash and cash equivalents held by the Hancock Educational Service Center, which are included as “Cash and Cash Equivalents with Fiscal Agent”. The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk.

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, \$541,160 of the School District’s bank balance of \$729,854 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the School District’s name.

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

Investments

As of June 30, 2005, the fair value of funds on deposit with STAR Ohio was \$104,845. The School District’s investments in STAR Ohio have an average maturity of 30.4 days. STAR Ohio carries a rating of AAA by Standards and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Ohio Department of Education	\$10,541
Ohio Department of Taxation	157
Total Governmental Activities	<u><u>\$10,698</u></u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 8 - 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.

NOTE 9 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Hancock 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 9 - PROPERTY TAXES – (CONTINUED)

The amount available as an advance at June 30, 2005, was \$181,148 in the General Fund and \$4,010 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$135,255 in the General Fund and \$14,499 in the Permanent Improvement capital projects fund.

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 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$45,783,570	71.79%	\$49,344,330	73.29%
Industrial/Commercial	5,811,430	9.11	5,902,580	8.77
Public Utility	9,511,880	14.91	9,530,880	14.16
Tangible Personal	2,671,426	4.19	2,545,582	3.78
Total Assessed Value	<u>63,778,306</u>	<u>100%</u>	<u>67,323,372</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$39.01		\$45.28	

In March 2004, the School District passed a four-year emergency levy for 6.9 mills.

NOTE 10 - CAPITAL ASSETS

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

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$27,410			\$27,410
Depreciable Capital Assets				
Land Improvements	139,770	37,294		177,064
Buildings and Building Improvements	1,190,690	11,600		1,202,290
Furniture, Fixtures, and Equipment	543,414	11,520	(6,035)	548,899
Vehicles	444,600			444,600
Total Depreciable Capital Assets	<u>2,318,474</u>	<u>60,414</u>	<u>(6,035)</u>	<u>2,372,853</u>

(continued)

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Less Accumulated Depreciation				
Land Improvements	(\$20,362)	(\$3,183)		(\$23,545)
Buildings and Building Improvements	(306,725)	(22,249)		(328,974)
Furniture, Fixtures, and Equipment	(290,809)	(20,826)	5,822	(305,813)
Vehicles	(197,429)	(22,200)		(219,629)
Total Accumulated Depreciation	(815,325)	(68,458)	5,822	(877,961)
Depreciable Capital Assets, Net	1,503,149	(8,044)	(213)	1,494,892
Governmental Activities Capital Assets, Net	<u>\$1,530,559</u>	<u>(\$8,044)</u>	<u>(\$213)</u>	<u>\$1,522,302</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$6,437
Special		221
Vocational		2,299
Support Services:		
Pupils		66
Instructional Staff		1,039
Administration		214
Fiscal		219
Operation and Maintenance of Plant		15,929
Pupil Transportation		22,696
Non-Instructional Services		6,149
Extracurricular Activities		13,189
Total Depreciation Expense		<u>\$68,458</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted for the following insurance coverage:

Coverage provided by Mid-American Fire and Casualty 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

Coverage provided by The Netherlands Insurance Company is as follows:

Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Coverage provided by Indiana Insurance Company is as follows:

Umbrella Liability Insurance	3,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

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

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003, was \$293,124, \$283,828, and \$274,591, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, was \$1,209 made by the School District and \$9,570 made by plan members.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$60,489, \$53,166, and \$46,513, respectively; 44 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$22,641.

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

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

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$31,075 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The School District provides medical, dental, and 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.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 15 - NOTES PAYABLE

During fiscal year 2003, the School District issued \$500,500 in tax anticipation notes for the construction of a handicap entrance and a roof replacement. The notes were issued under the authority of Ohio Revised Code Sections 133.24 and 5705.19 for a five year period, with final maturity during fiscal year 2008. The notes have an interest rate of 3.62 percent. During fiscal year 2005, principal, in the amount of \$97,626, was retired from the Permanent Improvement capital projects fund. The outstanding balance at June 30, 2005, was \$276,386.

Principal and interest requirements to retire the notes at June 30, 2005, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$101,271	\$8,455	\$109,726
2007	105,051	4,675	109,726
2008	70,064	959	71,023
Totals	<u>\$276,386</u>	<u>\$14,089</u>	<u>\$290,475</u>

NOTE 16 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$366,461	\$16,749	\$31,544	\$351,666	\$9,551

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

The School District's overall debt margin was \$5,791,861 with an unvoted debt margin of \$67,323 at June 30, 2005.

NOTE 17 - SET ASIDES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 17 - SET ASIDES – (CONTINUED)

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbooks	Capital Improvements
Balance June 30, 2004		
Current Year Set Aside Requirement	83,844	83,844
Current Year Offsets		\$(83,844)
Qualifying Expenditures	(63,880)	
Reserve Balance June 30, 2005	\$19,964	

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2005, the School District paid \$6,801 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as director, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Cooperative Vocational Career Center

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

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, 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, 2005
(Continued)**

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

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.

F. Northwest Ohio Special Education Regional Resource Center

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 19 - INSURANCE POOLS

A. Hancock County Schools Insurance Consortium Group Health Plan

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

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

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

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

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

NOTE 20 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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 this claim and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 20 – CONTINGENCIES – (CONTINUED)

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$25,036 per year. A portion of the refund may be recovered from additional State entitlement payments.

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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, each major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated January 16, 2007, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

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

Compliance and Other Matters

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

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

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

Mary Taylor, CPA
Auditor of State

January 16, 2007



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 8, 2007**