

UPPER ARLINGTON CITY SCHOOL DISTRICT

FRANKLIN COUNTY

SINGLE AUDIT

JULY 1, 2005 - JUNE 30, 2006



Mary Taylor, CPA

Auditor of State

Board of Education
Upper Arlington City School District
1950 North Mallway
Upper Arlington, Ohio 43221

We have reviewed the *Independent Auditors' Report* of the Upper Arlington City School District, Franklin County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Upper Arlington City School District is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA
Auditor of State

February 27, 2007

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**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

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**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

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Board of Education
Upper Arlington City School District
1950 North Mallway
Upper Arlington, Ohio 43221

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, its major fund, and the aggregate remaining fund information of Upper Arlington City School District, Franklin County, Ohio (the District) as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, its major fund, and the aggregate remaining fund information of the Upper Arlington City School District, Franklin County, Ohio as of June 30, 2006, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 14, the District changed its capitalization threshold for reporting capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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Newark, Ohio 43055
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Upper Arlington City School District
Franklin County
Independent Auditors' Report

Management's Discussion and Analysis and the budgetary comparison schedule for the general fund are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wilson, Shuman & Snow, Inc.

Newark, Ohio
December 12, 2006

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

As management of the Upper Arlington City School District (the District), we offer readers of the District financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

The District's net assets are \$36,765,262 as of June 30, 2006 according to the Statement of Net Assets. This represents an increase of \$6,329,800 or 20.8% from last year.

In November of 2004 the Citizens of the District authorized by vote a 7.5 mil operating levy. The levy began collection in January 2005 and raises approximately \$9.8 million in annual revenues. Fiscal 2006 is the first full year of collections. The current five-year forecast prepared by the District as mandated by state law, reflects a need for additional operating funds by fiscal year 2009.

The General Fund reported a positive fund balance of \$22,319,504. However, included within this balance is approximately \$15.5 million in tax revenues intended to finance next year's operations. Under accrual accounting, monies certified as being available for advance by the County Auditor as of fiscal year end are recognized as revenues within that fiscal year. On a budgetary basis these monies are intended to finance the following year.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

Our analysis of the District's major funds appears on the fund financial statements beginning with the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. These statements provide detailed information about the most significant funds—not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps readers determine whether there are financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Fund

The District's Fiduciary Funds are the Student Managed activities and the Rockbridge Academy Agency Fund. The District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities, Fiduciary Fund. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$36,765,262 according to the Statement of Net Assets at the close of the most recent fiscal year.

One of the largest portions of the District's net assets (34.1%) reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

A comparative analysis of fiscal year 2006 to 2005 follows from the Statements of Net Assets:

Upper Arlington City School District		
Net Assets		
Governmental Activities		
2005		
	2006	(as restated)
Current assets	\$ 80,796,761	\$ 67,621,517
Capital assets	<u>50,298,217</u>	<u>51,727,385</u>
Total assets	<u>131,094,978</u>	<u>119,348,902</u>
Current liabilities	50,224,016	42,254,379
Long-term liabilities	<u>44,105,700</u>	<u>46,659,061</u>
Total liabilities	<u>94,329,716</u>	<u>88,913,440</u>
Net Assets:		
Invested in capital, net of debt	12,551,763	11,835,639
Restricted	6,020,649	6,795,512
Unrestricted	<u>18,192,850</u>	<u>11,804,311</u>
Total net assets	<u>\$ 36,765,262</u>	<u>\$ 30,435,462</u>

A portion of the District's net assets (16.4%) represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's ongoing activities.

Changes in Net Assets		
Governmental Activities		
	2006	2005
Program revenues:		
Charges for services	\$ 4,884,408	\$ 4,390,353
Grants	3,101,064	2,874,540
General revenues:		
Property taxes	59,240,151	58,223,601
State entitlements	11,474,904	11,361,357
Investment earnings	1,056,129	426,134
Miscellaneous	<u>1,168,832</u>	<u>1,286,969</u>
Total revenues	<u>80,925,488</u>	<u>78,562,954</u>
Program expenses:		
Instructional	40,322,964	39,532,191
Support services	24,778,825	22,182,450
Extracurricular student activities	2,651,355	2,307,791
Food services	1,162,618	1,207,399
Community services	2,885,310	3,041,996
Interest on long-term debt	<u>2,794,616</u>	<u>1,823,529</u>
Total expenses	<u>74,595,688</u>	<u>70,095,356</u>
Change in net assets	<u>\$ 6,329,800</u>	<u>\$ 8,467,598</u>

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

Governmental Activities

In 2006, net assets of the District's governmental activities increased by \$6,329,800. The increase was primarily a result of the full year collection of the 7.5 mil levy offset by the timing of the certification of revenues by the County. In Ohio, the portion of property taxes legally available as an advance by June 30 is reported as revenue on both the full accrual and modified accrual basis of accounting. Thus, in the previous years 2005 and 2004 Franklin County certified that the amount of taxes available for advance was approximately \$15.6 million and 10.5 million respectively; whereas, the amount available for advance at June 30, 2006 was approximately 16.2 million.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. General revenues including tax revenue, investment earnings and unrestricted State entitlements must support the net cost of program services.

<u>Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Service</u>
	<u>2006</u>	<u>2006</u>
Instructional services	\$ 40,322,964	\$ 39,563,200
Support services	24,778,825	23,483,887
Extracurricular student activities	2,651,355	1,020,253
Food services	1,162,618	34,025
Community services	2,885,310	(285,765)
Interest on long-term debt	<u>2,794,616</u>	<u>2,794,616</u>
Total	<u>\$ 74,595,688</u>	<u>\$ 66,610,216</u>

Local property taxes make up 73.2% of total revenues for governmental activities. The net services column reflecting the need for \$66,610,216 of support indicates the reliance on general revenues to support governmental activities.

The District's Funds

The District's governmental funds reported a combined fund balance of \$27,637,538, which represents an increase of \$4,622,284 as compared to last year's total of \$23,015,254 according to the Governmental Funds Balance Sheet.

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

The schedule below shows the fund balance and the total change in fund balance from June 30, 2006 to 2005.

	Fund Balance at June 30, 2006	Fund Balance at June 30, 2005	Increase (Decrease)
General Fund	\$ 22,319,504	\$ 16,691,141	5,628,363
Other Governmental Funds	5,318,034	6,324,113	(1,006,079)
Total	<u>\$ 27,637,538</u>	<u>\$ 23,015,254</u>	<u>4,622,284</u>

General Fund

The District's General Fund balance increased primarily because of the increase in property tax revenues due to the full year collection of the 7.5 mil levy as discussed above.

Other Governmental Funds

Other governmental funds consist of Debt Service, Special Revenue, and Capital Projects funds. Fund balance in these funds decreased by \$1,006,079 primarily due to the classification of the \$1,230,000 note payable as a fund liability in the current year.

The tables that follow assist in illustrating the financial activities and balance of the General Fund.

Revenues	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Property taxes	\$ 56,601,812	\$ 55,545,378	1.90%
Intergovernmental	11,442,946	10,962,950	4.38%
Investment income	962,670	360,043	167.38%
Other revenue	<u>796,302</u>	<u>975,218</u>	-18.35%
Total	<u>\$ 69,803,730</u>	<u>\$ 67,843,589</u>	<u>2.89%</u>

Overall revenues increased as a result of the increase in property taxes as discussed earlier. Interest earnings are up 167.4% from fiscal 2005 due to increasing interest rates combined with an increase in available cash to invest.

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

As the table below indicates, the largest portion of General Fund expenditures is for instructional cost.

Expenditures by Function	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Instructional services	\$ 38,510,068	\$ 36,801,616	4.64%
Support services	23,343,866	20,925,206	11.56%
Co-curricular student activities	955,823	998,315	-4.26%
Capital outlay	-	1,179,923	-100.00%
Debt Service	508,910	739,476	-31.18%
Total	<u>\$ 63,318,667</u>	<u>\$ 60,644,536</u>	<u>4.41%</u>

Expenditures are up 4.4 % over the prior year as planned. The increase in Support Services is due to many factors. The largest factors are: increased contractual services with the Educational Support Service Center, higher utility and gasoline charges due to the 2006 economy, and reduction of certain support services expenditures in prior year due to the expiration of a District-wide copier lease agreement. Capital outlay in 2005 was a result of the District entering into a capital lease agreement for technology equipment valued at \$1,179,923.

General Fund Budget Information

The District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. Changes are made to the District's budget as changes in revenues and spending patterns are experienced.

The District uses the five-year forecast as the original document from which to form the operating budget. After updating the forecast for changes in revenue and expenditure assumptions, the operating budget begins at the school level. Each school in the District receives a per pupil allocation augmented with resources for special education students in the specific buildings. Budgets are reviewed periodically to ensure management becomes aware of any variations during the year.

Capital Assets

In 2006 the District increased its capitalization threshold from \$1,000 to \$2,500. Additionally, the District hired a third party perform a physical count and revaluation of all its existing capital assets. As a result of the aforementioned, the District restated the 2005 reported capital asset value downward by \$6,968,042. At June 30, 2006 the District has \$50,298,217 invested in capital assets net of depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Upper Arlington City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2006, continued
(Unaudited)

Debt

On June 30, 2006, the District had \$37,370,943 in long-term outstanding notes and bonds. Additionally, the District has capital lease obligations of \$640,942. The District paid \$2,840,000 in principal on notes and bonds outstanding and \$2,794,616 in interest payments during the 2006 fiscal year. Detailed information regarding long-term debt is included in the notes to the basic financial statements.

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total taxable valuation of real and personal property. As of June 30, 2006, the District's general obligation debt was below the legal limit.

Component Unit

The Upper Arlington International Baccalaureate High School (IB School), a discretely presented component Unit of the Upper Arlington City School District, was approved for operation under a contract with the District (the Sponsor) in 2004. The IB School is a legally separate not-for-profit served by an appointed seven-member board of Directors. The IB School is a two-year comprehensive curriculum for grades 11 and 12, that seeks to prepare students for post-secondary study through courses and instructional techniques that emphasize:

- Critical thinking
- Application of Knowledge
- A liberal arts education with international focus

All Students of the IB School must reside within the Upper Arlington City School District.

Economic Factors

The property tax laws in Ohio create the need periodically to seek voter approval for additional operating funds. Tax revenues generated from voted tax levies do not increase as a result of inflation. An operating levy is approved for a fixed millage rate, but the rate is reduced for inflation with the effect of providing the District the same amount of tax dollars as originally approved. Therefore, school districts such as ours that are dependent upon property taxes as a primary source of revenue must periodically return to the ballot and ask voters for additional resources to maintain current programs. Since the District must rely heavily on voter approval of operating tax issues, management of the resources is of paramount concern to the District's Board of Education, administration, and the voting public.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, tax payers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for monies it receives. Questions concerning any information in this report or request for additional information should be directed to Andrew L. Geistfeld, Treasurer, Upper Arlington City School District, 1950 North Mallway Drive, Upper Arlington, Ohio 43221.

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**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Primary Government	Component Unit
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>INTERNATIONAL BACCALAUREATE</u>
ASSETS:		
Equity in pooled cash & investments	\$ 37,066,315	\$ -
Cash and cash equivalents in segregated accounts	-	31,607
Restricted cash	285,453	-
Receivables	42,235,075	-
Due from other:		
Governments	833,154	12,166
Inventory	111,333	-
Deferred charges	265,431	-
Land	244,883	-
Depreciable capital assets, net of accumulated depreciation	<u>50,053,334</u>	<u>33,188</u>
TOTAL ASSETS	<u>131,094,978</u>	<u>76,961</u>
LIABILITIES:		
Accounts payable	937,302	18,766
Due to other governments	193,658	-
Accrued interest payable	162,083	-
Unearned revenue	39,958,091	-
Accrued liabilities	7,742,882	-
Note payable	1,230,000	-
Long-term Liabilities:		
Due within one year	4,207,300	-
Due in more than one year	<u>39,898,400</u>	<u>-</u>
TOTAL LIABILITIES	<u>94,329,716</u>	<u>18,766</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,551,763	33,188
Restricted for:		
Budget stabilization	285,453	-
Debt service	1,662,931	-
Capital projects	1,002,457	-
Other purposes	3,069,808	-
Unrestricted	<u>18,192,850</u>	<u>25,007</u>
TOTAL NET ASSETS	<u><u>\$ 36,765,262</u></u>	<u><u>\$ 58,195</u></u>

The notes to the financial statements are an integral part of this statement.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues		
Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities			
Instructional services:			
Regular	\$ 34,704,984	\$ 16,130	\$ 39,889
Special	5,573,709	107,759	595,986
Vocational	44,271	-	-
Support services:			
Operation and maintenance of plant	5,837,429	-	-
General administration	4,340,792	-	547,462
Business operations	3,755,150	-	-
Pupils	1,146,139	-	76,823
Fiscal services	720,572	-	-
Instructional staff	5,495,929	-	524,049
Student transportation	1,527,358	-	59,404
Central services	1,888,469	-	87,200
Board of Education	66,987	-	-
Extracurricular student activities	2,651,355	1,481,102	150,000
Food Service operations	1,162,618	1,120,047	8,546
Community services	2,885,310	2,159,370	1,011,705
Interest on long-term debt	2,794,616	-	-
Total Primary Governmental Activities	\$ 74,595,688	\$ 4,884,408	\$ 3,101,064
Component Unit:			
International Baccalaureate	\$ 525,270	\$ 60,565	\$ 150,277

General revenues:
Property taxes
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues

Change in Net Assets

Net Assets Beginning of Year, as restated
Net Assets End of Year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets	Component Unit
Primary Government - Governmental Activities	International Baccalaureate
\$ (34,648,965) (4,869,964) (44,271) (5,837,429) (3,793,330) (3,755,150) (1,069,316) (720,572) (4,971,880) (1,467,954) (1,801,269) (66,987) (1,020,253) (34,025) 285,765 (2,794,616)	
\$ (66,610,216)	\$ (314,428)
59,240,151 11,474,904 1,056,129 1,168,832	- 346,450 - -
72,940,016	346,450
6,329,800 30,435,462	32,022 26,173
\$ 36,765,262	\$ 58,195

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>GENERAL</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
ASSETS :			
Equity in Pooled Cash and investments	\$ 29,960,030	\$ 7,106,285	\$ 37,066,315
Restricted cash	285,453	-	285,453
Receivables	40,283,383	1,951,692	42,235,075
Due from other:			
Governments	-	833,154	833,154
Funds	34,623	-	34,623
Inventory	<u>30,812</u>	<u>80,521</u>	<u>111,333</u>
TOTAL ASSETS	<u>\$ 70,594,301</u>	<u>\$ 9,971,652</u>	<u>\$ 80,565,953</u>
LIABILITIES:			
Accounts payable	630,799	306,503	937,302
Due to other-			
Governments	193,658	-	193,658
Funds	-	34,623	34,623
Deferred revenue	40,094,000	2,695,950	42,789,950
Accrued liabilities	7,356,340	386,542	7,742,882
Note payable	<u>-</u>	<u>1,230,000</u>	<u>1,230,000</u>
TOTAL LIABILITIES	<u>48,274,797</u>	<u>4,653,618</u>	<u>52,928,415</u>
FUND BALANCES:			
Fund balances:			
Reserved for encumbrances	381,474	1,084,051	1,465,525
Reserved for inventory	30,812	80,521	111,333
Reserved for future appropriations	15,450,089	749,911	16,200,000
Reserved for budget stabilization	285,453	-	285,453
Unreserved, reported in:			
General fund	6,171,676	-	6,171,676
Special Revenue funds	-	2,062,627	2,062,627
Debt Service fund	-	1,075,103	1,075,103
Capital Projects funds	<u>-</u>	<u>265,821</u>	<u>265,821</u>
TOTAL FUND BALANCES	<u>22,319,504</u>	<u>5,318,034</u>	<u>27,637,538</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 70,594,301</u>	<u>\$ 9,971,652</u>	<u>\$ 80,565,953</u>

The notes to the financial statements are an integral part of this statement.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total Governmental Fund Balances	\$ 27,637,538
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not functional resources and therefore are not reported in the funds.	50,298,217
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	2,831,859
Deferred charges are not recognized in the funds.	265,431
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Interest payable	(162,083)
Compensated absences	(6,093,815)
Bonds and notes payable	(37,370,943)
Capital lease obligations	(640,942)
Net Assets of Governmental Activities	<u>\$ 36,765,262</u>

The notes to the financial statements are an integral part of this statement.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES:			
Property taxes	\$ 56,601,812	\$ 2,708,980	\$ 59,310,792
Intergovernmental:			
Federal Restricted Grants-in-aid	2,364	1,111,210	1,113,574
State:			
Unrestricted Grants-in-aid	11,386,328	353,673	11,740,001
Restricted Grants-in-aid	54,254	1,138,989	1,193,243
Investment income	962,670	93,459	1,056,129
Charges for services	-	3,287,105	3,287,105
Co-curricular activities	151,647	1,252,348	1,403,995
Tuition fees	107,759	-	107,759
Other	536,896	567,485	1,104,381
TOTAL REVENUES	69,803,730	10,513,249	80,316,979
EXPENDITURES:			
Current:			
Instructional services:			
Regular	33,365,563	92,789	33,458,352
Special	5,102,653	442,764	5,545,417
Vocational	41,852	2,419	44,271
TOTAL INSTRUCTIONAL SERVICES	38,510,068	537,972	39,048,040
Support services:			
Operation and maintenance of plant	5,876,434	-	5,876,434
School administration	3,909,190	390,614	4,299,804
Pupils	3,677,643	77,507	3,755,150
Fiscal	1,122,337	23,802	1,146,139
Business operations	562,870	157,702	720,572
Instructional staff	4,999,527	495,962	5,495,489
Student transportation	1,413,561	54,234	1,467,795
Central services	1,715,317	173,152	1,888,469
General administration	66,987	-	66,987
TOTAL SUPPORT SERVICES	23,343,866	1,372,973	24,716,839
Co-curricular student activities	955,823	1,505,120	2,460,943
Community services	-	2,885,310	2,885,310
Food service	-	1,147,165	1,147,165
Capital outlay	-	658,573	658,573
Debt service:			
Principal retirement	495,177	1,610,000	2,105,177
Interest	13,733	2,658,915	2,672,648
TOTAL EXPENDITURES	63,318,667	12,376,028	75,694,695
Excess (deficiency) of revenues over expenditures	6,485,063	(1,862,779)	4,622,284
OTHER FINANCING SOURCES (USES):			
Transfers in	-	856,700	856,700
Transfers out	(856,700)	-	(856,700)
TOTAL OTHER FINANCING SOURCES (USES)	(856,700)	856,700	-
Change in Net Assets	5,628,363	(1,006,079)	4,622,284
FUND BALANCES AT BEGINNING OF YEAR	16,691,141	6,324,113	23,015,254
FUND BALANCE AT END OF YEAR	\$ 22,319,504	\$ 5,318,034	\$ 27,637,538

The notes to the financial statements are an integral part of this statement.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net Changes in Fund Balances - Total Governmental Funds	\$ 4,622,284
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in 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 outlays in the current period.	(1,429,168)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	458,509
Repayment of principal on debt obligations is an expenditure in governmental fund, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.	2,105,177
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	694,966
Interest expense	(121,968)
Change in Net Assets of Governmental Activities	<u><u>\$ 6,329,800</u></u>

The notes to the financial statements are an integral part of this statement.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

		<u>AGENCY FUNDS</u>
ASSETS:		
Cash and investments	\$	240,588
TOTAL ASSETS		<u>240,588</u>
LIABILITIES:		
Accounts payable		7,956
Due to other:		
Student Activities		232,632
TOTAL LIABILITIES	\$	<u><u>240,588</u></u>

The notes to the financial statements are an integral part of this statement.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Upper Arlington City School District, Franklin County, Ohio (the District) was organized in 1918 and is a fiscally independent political subdivision of the State of Ohio, Franklin County, Ohio. The District is governed by a five-member board of education (the Board) elected by the citizens of Upper Arlington. The District is comprised of 8 schools and other buildings and departments that employ 787 employees. Our student population is 5,679 students.

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes.

The Upper Arlington International Baccalaureate High School (IB School) is a discretely presented component Unit of the District. It is reported in a separate column to emphasize that it is legally separate from the District.

The IB School is a legally separate not-for-profit served by an appointed seven-member board of Directors. The IB School is a two-year comprehensive curriculum for grades 11 and 12, that seeks to prepare students for post-secondary study through courses and instructional techniques that emphasize:

- Critical thinking
- Application of Knowledge
- A liberal arts education with international focus

Separately, issued financial statements can be obtained from Upper Arlington International Baccalaureate High School, 1950 North Mallway, Upper Arlington, Ohio 43221.

Additionally, within the School District boundaries, St. Agatha, St. Andrew, Wellington, and Sunshine Nursery are privately operated schools. The State provides funding for these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic school by the Treasurer of the School District, as directed by the nonpublic school. This financial activity is reflected in other governmental fund for reporting purposes.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its government wide activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

(A) Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of fund information.

Government-wide and fund financial statements

The statement of net assets and the statement of activities display information about the 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 District at year end. The government - wide statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the 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 District.

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund.

(B) Fund Accounting

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

Governmental funds focus 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 District reports the following *major* governmental fund:

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

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Funds used to account for the activity of the numerous student managed activities within the District and Rockbridge Academy are classified as agency funds. The District has not established any of the above trust funds.

(C) *Measurement focus*

The government-wide financial statements are reported using the *economic resources measurement focus*. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets.

All government funds are accounted for using a flow of *current financial resources measurement focus* with this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (ie, revenues and other financing sources) and uses (ie, 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 statements for governmental funds.

Fiduciary funds are reported using the economic resources measurement focus.

(D) *Basis of Accounting*

Basis of accounting determines when transaction is 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. 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.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Exchange and Non-exchange 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenditures/Expenses

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than on expenses. Expenditures are recorded when the related liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by the employee. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

The accrual basis of accounting utilized on the government-wide financial statements recognizes revenues when they are earned, and expenses are recognized at the time they are incurred.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level must be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and the Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Franklin County Budget Commission for rate determination.

Estimated Resources:

Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year do not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer.

Appropriations:

Upon receipt from the County Auditor of an amended official certificate of estimated resources based on the final assessed values and tax rates or a certificate stating no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

Formal budgetary integration is employed as a management control device during the year for all funds, including the Debt Service Fund, consistent with statutory provisions.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the Non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

(F) Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account with individual fund balance integrity retained throughout. Each fund's interest in the pool is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2006, investments were limited to various government securities, repurchase agreements and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The School District has invested funds in the State Treasury Assets Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

For presentation purposes on the balance sheet, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$962,670.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(G) *Inventory*

On government-wide financial statements, inventories are presented at the lower cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

(H) *Capital Assets and Depreciation*

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated capital assets are recorded at their fair market values as of the date received. The District follows the policy of not capitalizing assets with a cost of less than \$2,500 and a useful life of less than one year. The District does not possess any infrastructure.

All reported capital assets, with the exception of 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:

Land improvements	20
Buildings and building improvements	15-50
Furniture and equipment	5-20
Vehicles	8-15

(I) *Interfund Activity*

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds.

On fund financial statements, short-term interfund loans are classified as Due to/from other funds. These amounts are eliminated in the statement of net assets.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) *Compensated Absence*

Administrators and classified staff who work twelve month contracts are granted vacation leave. The leave amount is based on length of service and position. The District accrues vacation leave benefits as earned. Accrued vacation may be carried forward to the next fiscal year. The maximum amount to be carried at any one time is two times the annual number of days.

District employees are granted vacation, personal leave, and sick leave in varying amounts. All leave will either be absorbed by time off from work, or with certain limitations, be paid to the employees when their employment ceases. Sick leave benefits are only paid upon retirement at the rate of 25% up to a maximum amount of days as determined by negotiated agreements with the two bargaining units and Board policy for all other employees. The entire compensated absence liability is reported on the entity-wide financial statements.

For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The noncurrent portion of the liability is not recorded.

(K) *Accrued Liabilities and Long-term Debt*

All payables, accrued liabilities and long-term obligations are reported in 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 and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

(L) *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 balances of any borrowings used for the acquisitions, 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(M) *Fund Balance Reservations*

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances, inventory, property taxes for future appropriations, and budget stabilization. (See Note 12)

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(N) *Estimates*

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

3. DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the School District into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near- cash" status for immediate use by the District. Such monies must be maintained either as cash in the School Treasury, in depository accounts payable, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" monies, 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 the certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

Interim monies may be invested in the following obligations:

United States Treasury Notes, Bills, Bonds, 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;

Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but no limited to, the Federal National Mortgage Association, Federal Home Loan, 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 governmental agencies or instrumentalities;

Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

Bonds and other obligations of the State of Ohio;

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

3. DEPOSITS AND INVESTMENTS (Continued)

No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
The State Treasurer's investment pool (STAR Ohio);

Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;

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. Payments for investments may be made only upon the delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$ 5,297,106, and the bank balance was \$5,321,625. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2006, \$ 5,110,397 of the District's bank balance of \$5,321,625 was exposed to custodial risk as discussed below, while \$211,288 was covered by Federal Deposit Insurance Corporation.

Additionally, the District had undeposited cash on hand in the amount of \$10,576 included as part of cash and cash equivalents. Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds. Deposits are also collateralized with specific collateral held at the Federal Reserve Bank in the name of the District.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, 2006, the District had the following investments and maturities.

Investment type	Fair Value	Investment Maturities	
		6 months or less	
* Repurchase Agreement	\$ 17,555,000	17,555,000	
STAROhio	2,859,128	2,859,128	
FHLMC DN	6,920,959	6,920,959	
FNMA DN	4,949,587	4,949,587	
	\$ 32,284,674	32,284,674	

* Underlying securities are guaranteed by the US government.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk. The District's investments were rated A-1+ and P-1 by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAROhio an AAAM money market rating.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in one issuer. Of the District's total investments 54.4% are repurchase agreement, 21.4% are FHLMC DN, and 15.3% are FNMA DN.

Component Unit Cash and Cash Equivalents

At June 30, 2006, the carrying amount of all IB School deposits was \$ 31,607. The bank balance of \$ 34,868 was covered by Federal Deposit Insurance Corporation.

4. RECEIVABLES

Receivables at June 30, 2006, consist of the following:

	Taxes	Other	Totals
Governmental activities:			
General	\$ 40,273,000	\$ 10,383	\$ 40,283,383
Other governmental funds	1,921,000	30,692	1,951,692
Total	\$ 42,194,000	\$ 41,075	\$ 42,235,075

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. CAPITAL ASSETS, As Restated

A summary of changes in capital assets for the year ended June 30, 2006, follows:

	Balance June 30, 2005, as previously reported	Restatement	Balance June 30, 2005, as restated	Additions	Disposals	Balance June 30, 2006
<u>Governmental Activities Cost</u>						
Land (not being depreciated)	\$ 244,883	\$ -	\$ 244,883	\$ -	\$ -	\$ 244,883
Land improvements	-	2,053,000	2,053,000	-	-	2,053,000
Building and improvements	69,755,533	902,439	70,657,972	843,867	-	71,501,839
Furniture, fixtures and equipment	23,668,702	(17,710,852)	5,957,850	26,000	-	5,983,850
Vehicles	1,418,733	338,007	1,756,740	69,337	-	1,826,077
Total at cost	<u>\$ 95,087,851</u>	<u>(14,417,406)</u>	<u>80,670,445</u>	<u>939,204</u>	<u>-</u>	<u>81,609,649</u>
<u>Less accumulated depreciation</u>						
Land improvements	-	1,022,100	1,022,100	85,090	-	1,107,190
Building and improvements	22,507,582	1,099,320	23,606,902	1,497,184	-	25,104,086
Furniture, fixtures and equipment	12,771,131	(9,571,176)	3,199,955	691,198	-	3,891,153
Vehicles	1,113,711	392	1,114,103	94,900	-	1,209,003
Total accumulated depreciation	<u>36,392,424</u>	<u>(7,449,364)</u>	<u>28,943,060</u>	<u>2,368,372</u>	<u>-</u>	<u>31,311,432</u>
Capital assets, net	<u>\$ 58,695,427</u>	<u>\$ (6,968,042)</u>	<u>\$ 51,727,385</u>	<u>\$ (1,429,168)</u>	<u>\$ -</u>	<u>\$ 50,298,217</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	
Regular	\$1,954,598
Special	28,292
Support services	
Instructional staff	440
Administration	40,988
Operation of maintenance and plant	78,626
Student transportation	59,563
Extra-curricular activities	190,412
Food service operations	15,453
Total depreciation expense	<u>\$2,368,372</u>

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. LONG-TERM OBLIGATIONS

A summary for changes in long-term obligations for the year ended June 30, 2006, follows:

<u>Debt Issuance</u>	<u>Issued</u>	<u>7/1/2005 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006 Balance</u>	<u>Due within 1 yr</u>
1996 Building Improvement Bonds	1997	\$ 2,619,366	-	\$1,170,000	\$1,449,366	\$1,275,000
1996 Bonds Interest Accretion	1997	2,374,972	141,320	-	2,516,292	-
General Obligation Bonds Payable		<u>4,994,338</u>	<u>141,320</u>	<u>1,170,000</u>	<u>3,965,658</u>	<u>1,275,000</u>
2005 Refunding Issue Bonds	2005	32,125,000	-	440,000	31,685,000	235,000
Premium on Refunding Bonds	2005	1,962,132	-	115,420	1,846,712	115,420
Deferred Amount on Refunding	2005	(1,737,740)	-	(102,220)	(1,635,520)	(102,220)
2005 Bonds Interest Accretion	2005	160,431	118,662	-	279,093	-
Refunding Bonds Payable		<u>32,509,823</u>	<u>118,662</u>	<u>453,200</u>	<u>32,175,285</u>	<u>248,200</u>
Energy Conservation Note	2005/6	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
Compensated Absences	N/A	6,788,781	2,372,010	3,066,976	6,093,815	1,143,000
Capital Leases Payable	N/A	1,136,119	-	495,177	640,942	311,100
Total Long-Term Obligations		<u>\$ 46,659,061</u>	<u>\$ 3,861,992</u>	<u>\$ 6,415,353</u>	<u>\$44,105,700</u>	<u>\$4,207,300</u>

On February 1, 2005 the District issued general obligation refunding bonds to provide resources to purchase US Government securities that were placed, along with a portion of the premiums received associated with the sale of the bonds, in an irrevocable trust for the purpose of generating resources for future debt service payments of \$32,125,000 of 1997 School Building Improvement general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability associated with these bonds has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,737,740. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next eighteen years by \$2,263,701 and resulted in an economic gain of \$1,667,607.

The District has retired the energy conservation notes in fiscal year 2007 and therefore the amount of \$1,230,000 is reported as a fund liability in the respective fund.

The general obligation bonds and notes are a direct obligation of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the school district.

In the opinion of management, the District has complied with all bond covenants.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. LONG-TERM OBLIGATIONS (Continued)

The annual maturities of the general obligation bonds as of June 30, 2006, and related interest payments are as follows:

<u>Year ending June 30,</u>	<u>Interest rate (%)</u>	<u>Principal</u>	<u>Interest</u>
2007	3.0 - 5.25	\$ 1,510,000	1,323,432
2008	3.0 - 5.25	1,620,000	1,265,584
2009	3.0 - 5.25	1,705,000	1,215,769
2010	2.75 - 5.25	1,790,000	1,165,581
2011	2.75 - 5.25	1,880,000	1,110,419
2012 - 2016	5.0 - 5.25	5,399,366	9,330,433
2017 - 2021	5.0 - 5.25	13,155,000	3,247,875
2022 - 2024	5.0 - 5.25	6,075,000	297,125
Total		\$ 33,134,366	\$ 18,956,218

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the school district as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed 0.1% of the total assessed value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. An exception to the 9% limit is provided in ORC 133.06(E). At June 30, 2006 the District's total net debt and unvoted net debt capacity was approximately \$103,675,110 and \$1,556,174 of the total assessed value of all property within the school district.

Capital Lease Obligation

In 2005, the District entered into a capital lease obligation for the use of technology equipment. The cost of this equipment which is included in the Districts capital asset is \$1,179,823.

The annual maturities of the capital lease obligation as of June 30, 2006, and related interest payments are as follows:

<u>Year ending June 30,</u>	<u>Interest rate (%)</u>	<u>Principal</u>	<u>Interest</u>
2007	6.25%	311,100	38,615
2008	6.25%	329,842	19,872
Total		\$ 640,942	\$ 58,487

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Districts contributions to the STRS of Ohio for the fiscal years ending June 30, 2006, 2005, and 2004, were \$ 4,965,432, \$4,635,168, and \$4,526,304; respectively.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS, continued

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's contributions to SERS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$1,302,924, \$1,273,812, and \$1,235,280 respectively, which were equal to the required contributions for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$354,674 for fiscal year 2006.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS, continued

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$318,286.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

9. JOINT VENTURE

The Rockbridge Academy (Academy) is a joint venture consisting of a consortium of six schools districts. The joint venture was formed for the purpose of providing alternative education services to at risk students. The Governing Board of the Academy consists of six members appointed by each member school. The District does not have an equity interest that is explicit and measurable in the joint venture, however the District does have an ongoing financial obligation to support the Academy in meeting its financial obligations. The Academy is independent upon continued support of the member schools as it is not independently accumulating adequate financial resources. The District is the financial agent for the Academy, as such; cash in the amount of \$86,296 is accounted for in a Agency Fund. Further detailed financial information may be obtained by contacting the Upper Arlington City.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. PROPERTY TAXES

Property Taxes include amounts levied against all real, public utility and tangible (used in business) property located in the school district. All property taxes are collected on behalf of the District by Franklin County. Due and collection dates, as established by Franklin County, were January 2005 and June 2006, for those taxes due during 2006.

Real property taxes collected during calendar year 2006 had a lien and levy date of January 1, 2005. Tangible personal property taxes collected during calendar year 2006 had a lien and levy date of January 1, 2006.

Assessed values are established by State law at 35% of appraised market value for Real Estate and Public Utility and at 25% for Tangible Personal. A revaluation of all property is required to be completed no less than every six years. The last revaluation was completed in December 2005. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value. The assessed values for collection in 2006, upon which the 2005 levies were based, was as follows:

Real Estate	\$ 1,525,560,230
Public Utility	17,409,210
Tangible Property	13,203,116
Total	<u>\$ 1,556,172,556</u>

The Franklin County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Upper Arlington City School District. The Franklin County Auditor periodically remits to the District its portion of the taxes collected. Property taxes may be paid on either an annual or semiannual basis.

11. CONTINGENT LIABILITIES

The Federal and State Grants remain subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the District's administration believes such disallowances, if any, would be immaterial.

Upper Arlington City School District is a party to legal proceedings. The District management is of the opinion that ultimate disposition of these claims will not have a material effect on the financial condition of the District.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

12. SET - ASIDE CALCULATIONS

The following cash basis information describes the change in the year-end set-aside amounts for the Textbooks and Capital Acquisition Reserves. The set-aside cash balance for the Textbook Reserve has been restated based on the District having qualifying disbursements which exceeded the prior year set-aside requirement at June 30, 2005, and this amount may be carried forward to future fiscal years. Disclosure of this information is required by state statute and is the following:

	Textbook Reserve	Capital Acquisition Reserve	Budget Stabilization
Set-aside cash balance as of June 30, 2005 (Restated)	\$ (288,947)	\$ -	\$ 285,453
Current year set-aside requirement	822,547	822,547	-
Qualifying disbursements	(987,437)	(935,899)	-
Total	<u>\$ (453,837)</u>	<u>\$ (113,352)</u>	<u>\$ 285,453</u>
Set-aside balance carried forward to FY 2007	<u>\$ (453,837)</u>	<u>-</u>	<u>\$ 285,453</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook reserve and this amount may be used to reduce the set-aside requirement for future fiscal years. The negative amount is therefore presented as being carried forward to next fiscal year. The District also had qualifying disbursements during the year that reduced the set-aside amounts below zero for the Capital Acquisition Reserve. This amount may not be used to reduce the set-aside requirement for future fiscal years.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004 the District contracted with an independent insurance provider for general liability insurance with an \$8 million umbrella coverage.

The District maintains property and casualty insurance of approximately \$120 million. Property and fleet insurance is provided by an independent insurance provider and property holds a \$1,000 deductible and the bus fleet and maintenance vehicles have a \$250 deductible and a \$1,000,000 limit per occurrence and \$2 million in the aggregate. A \$250,000 employee dishonesty blanket bond is also included for all employees.

The Fidelity Depository Company of Maryland maintains a \$50,000 public official bond for the Treasurer and Business Manager.

There has been no significant reduction in insurance coverage from coverage in the prior year. In addition, settled claims resulting from these risk have not exceeded commercial insurance coverage in any of the past three years.

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)

14. RESTATEMENT

In 2006, the District increased its capitalization threshold from \$1,000 to \$2,500. Additionally, the District hired a third party to perform a physical count and related revaluation of all its existing capital assets. As a result, beginning net assets were restated as follows:

Net assets at the beginning of the year as previously reported	\$37,403,504
Change in capital assets	(6,968,042)
Net assets as restated	<u>\$30,435,462</u>

**REQUIRED SUPPLEMENTAL INFORMATION
UPPER ARLINGTON CITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL	ACTUAL	
REVENUES:				
Property Taxes	\$ 40,982,491	40,982,491	41,734,726	752,235
Investment Income	285,000	775,000	819,590	44,590
Tuition Fees	146,185	124,000	107,759	(16,241)
Co-curricular	119,000	141,185	151,477	10,292
Miscellaneous	608,575	543,415	551,375	7,960
State Sources	10,907,773	10,946,631	11,440,582	493,951
Federal Sources	10,750	-	-	-
TOTAL REVENUES	<u>53,059,774</u>	<u>53,512,722</u>	<u>54,805,509</u>	<u>1,292,787</u>
EXPENDITURES:				
Regular Instruction	34,157,990	33,635,409	33,331,322	304,087
Special Instruction	4,971,562	5,053,866	4,982,810	71,056
Vocational Instruction	208,294	103,055	42,005	61,050
Pupil Services	3,623,970	3,645,847	3,630,327	15,520
Instructional Staff	4,975,448	5,469,373	5,157,353	312,020
Board of Education	58,980	99,481	79,280	20,201
School Administration	4,035,632	3,993,496	3,797,903	195,593
Fiscal Services	1,326,133	1,239,060	1,145,167	93,893
Business Operations	701,815	667,128	615,016	52,112
Operation and Maintenance of Plant	6,121,696	6,320,712	6,080,611	240,101
Student Transportation	1,387,366	1,537,245	1,403,751	133,494
Central Services	1,813,132	2,014,722	1,773,853	240,869
Co-Curricular Activities	950,106	1,018,751	955,237	63,514
TOTAL EXPENDITURES	<u>64,332,124</u>	<u>64,798,145</u>	<u>62,994,635</u>	<u>1,803,510</u>
OTHER FINANCING SOURCES (USES):				
Other	(1,140,880)	(1,072,876)	(891,323)	181,553
Refund of prior year expenditures	18,000	24,455	24,455	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,122,880)</u>	<u>(1,048,421)</u>	<u>(866,868)</u>	<u>181,553</u>
Change in fund balance	(12,395,230)	(12,333,844)	(9,055,994)	3,277,850
FUND BALANCES AT BEGINNING OF YEAR	22,135,210	22,135,210	22,135,210	-
Prior year encumbrances appropriated	1,073,161	1,073,161	1,073,161	-
FUND BALANCES AT END OF YEAR	<u>\$ 10,813,141</u>	<u>10,874,527</u>	<u>14,152,377</u>	<u>3,277,850</u>

UPPER ARLINGTON CITY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

NOTE A - RECONCILING BUDGET BASIS AND GAAP

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual column presented on the Budgetary Comparison Schedule – General Fund is prepared in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- B. Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- C. Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance (GAAP basis); and
- D. Investments are recorded at cost (budget basis) as opposed to fair value (GAAP basis).

A reconciliation of the General Fund results of operations at the end of the year on the GAAP basis to the budget basis follows:

Change in fund balance (GAAP)	\$ 5,628,363
Adjustments	
Due to revenues	(14,998,221)
Due to expenditures	1,152,710
Due to other financing sources (uses)	(10,168)
Encumbrances outstanding	(828,678)
Change in fund balance (Budget Basis)	<u>\$ (9,055,994)</u>

UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$ -	\$ 27,061	\$ -	\$ 27,061
National School Lunch Program	LL-P4-05,06	10.555	53,538	-	53,538	-
<i>Total Child Nutrition Cluster:</i>			<u>53,538</u>	<u>27,061</u>	<u>53,538</u>	<u>27,061</u>
Total U.S. Department of Agriculture			<u>53,538</u>	<u>27,061</u>	<u>53,538</u>	<u>27,061</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Special Education Cluster:</i>						
Title I Grants to Local Educational Agencies	C1-S1-06	84.010	61,384	-	61,384	-
Special Education-Grants to States	6B-SF-05,06	84.027	1,060,991	-	1,029,264	-
Safe and Drug Free Schools and Communities-National Programs	T4-S1-05	84.184C	11,250	-	12,500	-
Safe and Drug Free Schools and Communities-State Grants	DR-S1-05,06	84.186	13,504	-	17,293	-
State Grants for Innovative Programs	C2-S1-05,06	84.298	27,486	-	49,812	-
Education Technology State Grants	TJ-S1-05	84.318	-	-	3,207	-
English Language Acquisition Grants	T3-S2-05,06	84.365	16,233	-	21,371	-
Improving Teacher Quality State Grants	TR-S1-05,06	84.367	73,093	-	98,280	-
Hurricane Education Recovery	HR-01-06	84.938	7,000	-	7,000	-
Total U.S. Department of Education			<u>1,270,941</u>	<u>-</u>	<u>1,300,111</u>	<u>-</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<i>Passed through Ohio Department of Education:</i>						
Learn and Serve America_School and Community Based Programs	SV-S1-05,06	94.004	28,047	-	32,345	-
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	FEMA-1580-DR/EM	97.036	3,750	-	-	-
Total U.S. Department of Health and Human Services			<u>3,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,356,276</u>	<u>\$ 27,061</u>	<u>\$ 1,385,994</u>	<u>\$ 27,061</u>

The accompanying notes to this schedule are an integral part of this schedule.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the accompanying Schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture.



Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Education
Upper Arlington City School District
1950 North Mallway
Upper Arlington, Ohio 43221

We have audited the financial statements of the governmental activities, the discretely presented component unit, its major fund, and the aggregate remaining fund information of Upper Arlington City School District, Franklin County, Ohio (the District) as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 12, 2006, wherein we noted the District changed its capitalization threshold for reporting capital assets. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, in a separate letter to the District's management dated December 12, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
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FAX (740) 345-5635

Upper Arlington City School District
Franklin County
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, Board of Education, the Auditor of State, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Sherman & Sons, Inc.

Newark, Ohio
December 12, 2006



**Report on Compliance with Requirements Applicable to Its Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Education
Upper Arlington City School District
1950 North Mallway
Upper Arlington, Ohio 43221

Compliance

We have audited the compliance of the Upper Arlington City School District, Franklin County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2006. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's financial statements include the operations of the Upper Arlington International Baccalaureate High School, a discretely presented component unit. Because the component unit is legally separate from the District which this report addresses, and because it expended less than \$500,000 of federal awards for the fiscal year ended June 30, 2006, it was not subject to OMB Circular A-133 audit requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, the Auditor of State, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Sherman & Sons, Inc.

Newark, Ohio
December 12, 2006

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Special Education Grants to States \84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

JUNE 30, 2006

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**UPPER ARLINGTON CITY SCHOOL DISTRICT
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(B)**

JUNE 30, 2006

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2005-001	Ohio Revised Code Section 5705.38 states that the Board of Education shall pass its annual appropriation measure by the first day of October.	Yes	N/A
2005-002	Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated as provided in such chapter.	Yes	N/A



Mary Taylor, CPA
Auditor of State

UPPER ARLINGTON CITY SCHOOL DISTRICT

FRANKLIN 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
MARCH 13, 2007**