



**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Mary Taylor, CPA
Auditor of State

January 16, 2007

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

The discussion and analysis of Arcadia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2006 are as follows:

- In total, net assets increased significantly (84 percent). The School District passed a four-year 6.9 mill emergency levy in March 2004 and a five-year 1 percent income tax levy in November 2004. The School District began collecting revenue from these levies in fiscal year 2005 (partial fiscal year) with a full year of collections in fiscal year 2006.
- After several years of steady or declining enrollment, in fiscal year 2006, the School District's enrollment increased by thirty-one students. This increase in enrollment significantly increased the State foundation revenue.
- General revenues accounted for 76 percent of total revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$4,345,297	\$3,158,030
Capital Assets, Net	1,459,776	1,522,302
Total Assets	5,805,073	4,680,332

(continued)

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Table 1
Net Assets
(continued)

	Governmental Activities	
	2006	2005
<u>Liabilities:</u>		
Current and Other Liabilities	\$2,842,214	\$2,914,741
Long-Term Liabilities	357,773	351,666
Total Liabilities	3,199,987	3,266,407
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,284,661	1,245,916
Restricted	490,818	412,773
Unrestricted (Deficit)	829,607	(244,764)
Total Net Assets	\$2,605,086	\$1,413,925

Several significant changes from the prior fiscal year are reflected in the above table. Four factors contributed to the \$1.2 million increase in current and other assets, an increase in cash and cash equivalents resulting from an increase in State foundation resources for increased student enrollment, an increase in property tax collections from the 6.9 mill emergency levy, an increase in income tax collections from the 1 percent levy approved by voters in November 2004, and a sizable donation of almost \$72,000.

Restricted net assets increased due to the donation, the use of which was restricted by the donor. Unrestricted net assets increased from the State foundation increases as well as the property and income tax increases.

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

Table 2
Change in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues</u>		
<u>Program Revenues</u>		
Charges for Services	\$965,901	\$920,219
Operating Grants, Contributions, and Interest	526,912	493,077
Capital Grants, Contributions, and Interest	73,661	181,443
Total Program Revenues	1,566,474	1,594,739

(continued)

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

Table 2
Change in Net Assets
(continued)

	Governmental Activities	
	2006	2005
<u>Revenues</u>		
General Revenues		
Property Taxes Levied for General Purposes	\$2,088,632	\$1,919,844
Property Taxes Levied for Permanent Improvement	154,659	162,551
Income Taxes Levied for General Purposes	627,233	162,990
Grants and Entitlements	2,121,578	1,884,600
Interest	54,402	10,586
Gifts and Donations	11,127	2,609
Miscellaneous	30,749	30,289
Total General Revenues	5,088,380	4,173,469
Total Revenues	6,654,854	5,768,208
<u>Expenses</u>		
Instruction:		
Regular	2,502,590	2,386,812
Special	399,877	468,116
Vocational	284,792	231,575
Support Services:		
Pupils	225,179	76,688
Instructional Staff	145,781	137,630
Board of Education	13,091	15,790
Administration	457,734	458,130
Fiscal	157,970	160,573
Operation and Maintenance of Plant	489,049	439,169
Pupil Transportation	302,289	267,703
Central	1,461	2,549
Non-Instructional Services	224,777	213,502
Extracurricular Activities	250,754	225,872
Interest and Fiscal Charges	8,349	11,598
Total Expenses	5,463,693	5,095,707
Increase in Net Assets	1,191,161	672,501
Net Assets at Beginning of Year	1,413,925	741,424
Net Assets at End of Year	\$2,605,086	\$1,413,925

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

With only a 7 percent increase in total expenses in fiscal year 2006, expenses remained fairly comparable for each program. Not surprisingly, the major expense is for instruction, which accounts for 58 percent to total expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 12 percent of total expenses. Maintenance of the School District's facilities also represents a significant expense, almost 9 percent. Therefore, approximately 79 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$2,502,590	\$2,386,812	\$1,683,499	\$1,593,831
Special	399,877	468,116	193,356	172,958
Vocational	284,792	231,575	264,476	208,862
Support Services:				
Pupils	225,179	76,688	85,276	71,688
Instructional Staff	145,781	137,630	145,781	137,630
Board of Education	13,091	15,790	13,091	15,790
Administration	457,734	458,130	457,734	458,130
Fiscal	157,970	160,573	157,970	160,573
Operation and Maintenance of Plant	489,049	439,169	484,803	437,250
Pupil Transportation	302,289	267,703	299,107	262,804
Central	1,461	2,549	1,461	2,549
Non-Instructional Services	224,777	213,502	(8,226)	1,748
Extracurricular Activities	250,754	225,872	110,542	(34,443)
Interest and Fiscal Charges	8,349	11,598	8,349	11,598
Total Expenses	<u>\$5,463,693</u>	<u>\$5,095,707</u>	<u>\$3,897,219</u>	<u>\$3,500,968</u>

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately one-third of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. A substantial portion of special instruction and pupils costs are provided for through operating grants for special instruction programs. For fiscal year 2006, all of the costs of the non-instructional program were paid for through cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, gate receipts at musical and athletic events, and donations restricted to the improvement of athletic activities and facilities.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Both of the School District's major funds had a significant increase in fund balance from the prior fiscal year. The General Fund's increase is the result of increases in tax levies and State foundation revenue. The Permanent Improvement Fund's increase is because planned improvements have been completed and the growth of revenues exceeded expenditures for fiscal year 2006.

General Fund Budgeting Highlights

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

During fiscal year 2006, the School District amended its General Fund budget as needed. Note, however, that changes from the original to final budget for both revenues and expenditures were not significant. Changes from the final budget to actual revenues were primarily due to increased State foundation resources. Changes from the final budget to actual expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$1,459,776 invested in capital assets (net of accumulated depreciation), a decrease of \$62,526. The decrease is due to the annual depreciation. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2006, the School District had outstanding tax anticipation notes, in the amount of \$175,115. In addition, long-term obligations consisted of compensated absences, in the amount of \$357,773. Compensated absences will be paid from the General Fund and the Food Service special revenue fund. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

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

The School District continues to receive donations that will be used to enhance the sports programs and facilities. The School District received \$58,000 in fiscal 2006 toward this type of project.

The School District accepts open enrollment of students from other school districts. During the 2005/2006 school year, one hundred thirty-four students from other school districts attended Arcadia Local School District under the open enrollment program while only thirty-eight students left our school district to attend other schools. This resulted in \$679,460 in open enrollment revenues and \$184,878 in expenses.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

A 1.5 mill replacement levy for permanent improvements was defeated by the voters in November 2005. This defeat will negatively impact the General Fund. These expenditures will now become expenditures of the General Fund.

Contacting the School District's Financial Management

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,737,788
Cash and Cash Equivalents	
with Fiscal Agents	1,013
Accounts Receivable	9,675
Accrued Interest Receivable	1,877
Intergovernmental Receivable	2,874
Prepaid Items	8,232
Inventory Held for Resale	5,826
Materials and Supplies Inventory	9,068
Income Taxes Receivable	343,489
Property Taxes Receivable	2,225,455
Nondepreciable Capital Assets	27,410
Depreciable Capital Assets, Net	1,432,366
Total Assets	<u>5,805,073</u>
<u>Liabilities:</u>	
Accounts Payable	2,037
Accrued Wages and Benefits Payable	471,956
Intergovernmental Payable	163,071
Accrued Interest Payable	178
Notes Payable	175,115
Matured Bonds Payable	1,000
Matured Interest Payable	13
Deferred Revenue	2,028,844
Long-Term Liabilities:	
Due Within One Year	10,447
Due in More Than One Year	347,326
Total Liabilities	<u>3,199,987</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,284,661
Restricted For:	
Set Asides	1,481
Debt Service	9,144
Capital Projects	349,538
Other Purposes	130,655
Unrestricted	829,607
Total Net Assets	<u><u>\$2,605,086</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest		Capital Grants, Contributions, and Interest
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,502,590	\$727,067	\$92,024		(\$1,683,499)
Special	399,877	16,679	189,842		(193,356)
Vocational	284,792		20,316		(264,476)
Support Services:					
Pupils	225,179		139,903		(85,276)
Instructional Staff	145,781				(145,781)
Board of Education	13,091				(13,091)
Administration	457,734				(457,734)
Fiscal	157,970				(157,970)
Operation and Maintenance of Plant	489,049			\$4,246	(484,803)
Pupil Transportation	302,289			3,182	(299,107)
Central	1,461				(1,461)
Non-Instructional Services	224,777	160,732	72,271		8,226
Extracurricular Activities	250,754	61,423	12,556	66,233	(110,542)
Interest and Fiscal Charges	8,349				(8,349)
Total Governmental Activities	<u>\$5,463,693</u>	<u>\$965,901</u>	<u>\$526,912</u>	<u>\$73,661</u>	<u>(3,897,219)</u>
<u>General Revenues:</u>					
					2,088,632
					154,659
					627,233
					2,121,578
					54,402
					11,127
					30,749
					<u>5,088,380</u>
					1,191,161
					1,413,925
					<u>\$2,605,086</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,235,136	\$104,270	\$374,592	\$1,713,998
Cash and Cash Equivalents				
with Fiscal Agents	1,013			1,013
Accounts Receivable	2,392		7,283	9,675
Accrued Interest Receivable	1,877			1,877
Intergovernmental Receivable	2,874			2,874
Prepaid Items	5,697		2,535	8,232
Inventory Held for Resale			5,826	5,826
Materials and Supplies Inventory	8,412		656	9,068
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	23,790			23,790
Income Taxes Receivable	343,489			343,489
Property Taxes Receivable	2,097,410	128,045		2,225,455
Total Assets	\$3,722,090	\$232,315	\$390,892	\$4,345,297
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$1,643		\$394	\$2,037
Accrued Wages and Benefits Payable	450,217		21,739	471,956
Intergovernmental Payable	154,168		8,903	163,071
Accrued Interest Payable		178		178
Notes Payable		175,115		175,115
Matured Bonds Payable	1,000			1,000
Matured Interest Payable	13			13
Deferred Revenue	1,976,530	118,779		2,095,309
Total Liabilities	2,583,571	294,072	31,036	2,908,679
<u>Fund Balances:</u>				
Reserved for Property Taxes	150,734	9,266		160,000
Reserved for Textbooks	1,481			1,481
Reserved for Bus Purchase	22,309			22,309
Reserved for Encumbrances	59,782	53,872	11,457	125,111
Unreserved, Reported in:				
General Fund	904,213			904,213
Special Revenue Funds			107,228	107,228
Debt Service Fund			6,928	6,928
Capital Projects Funds (Deficit)		(124,895)	234,243	109,348
Total Fund Balances (Deficit)	1,138,519	(61,757)	359,856	1,436,618
Total Liabilities and Fund Balances	\$3,722,090	\$232,315	\$390,892	\$4,345,297

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006**

Total Governmental Fund Balances \$1,436,618

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

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds. 1,459,776

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

Accounts Receivable	\$2,382	
Income Taxes Receivable	27,472	
Property Taxes Receivable	<u>36,611</u>	
		66,465

Compensated absences are not due and payable in the current
period and, therefore, are not reported in the funds. (357,773)

Net Assets of Governmental Activities \$2,605,086

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006**

	General	Permanent Improvement	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,065,272	\$153,643		\$2,218,915
Income Taxes	627,233			627,233
Intergovernmental	2,254,192	23,275	\$360,162	2,637,629
Interest	54,402	4,246	9,625	68,273
Tuition and Fees	743,185			743,185
Extracurricular Activities			61,423	61,423
Charges for Services			160,732	160,732
Gifts and Donations	10,027		71,751	81,778
Miscellaneous	4,216		26,533	30,749
Total Revenues	<u>5,758,527</u>	<u>181,164</u>	<u>690,226</u>	<u>6,629,917</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,376,761		87,791	2,464,552
Special	338,947		60,709	399,656
Vocational	281,630			281,630
Support Services:				
Pupils	84,931		140,182	225,113
Instructional Staff	143,470			143,470
Board of Education	13,091			13,091
Administration	469,333		3,733	473,066
Fiscal	155,085	3,075		158,160
Operation and Maintenance of Plant	453,900	15,916	1,144	470,960
Pupil Transportation	273,122	6,600		279,722
Central	250		1,211	1,461
Non-Instructional Services			217,774	217,774
Extracurricular Activities	127,395		110,566	237,961
Capital Outlay	8,268	13,827		22,095
Debt Service:				
Interest and Fiscal Charges		8,349		8,349
Total Expenditures	<u>4,726,183</u>	<u>47,767</u>	<u>623,110</u>	<u>5,397,060</u>
Excess of Revenues Over Expenditures	1,032,344	133,397	67,116	1,232,857
<u>Other Financing Sources:</u>				
Sale of Capital Assets	2,000			2,000
Changes in Fund Balances	1,034,344	133,397	67,116	1,234,857
Fund Balances (Deficit) at Beginning of Year	104,175	(195,154)	292,740	201,761
Fund Balances (Deficit) at End of Year	<u>\$1,138,519</u>	<u>(\$61,757)</u>	<u>\$359,856</u>	<u>\$1,436,618</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2006**

Changes in Fund Balances - Total Governmental Funds \$1,234,857

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

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

Capital Outlay	8,793	
Depreciation	<u>(66,557)</u>	
		(57,764)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Sale of Capital Assets	(2,000)	
Loss on Disposal of Capital Assets	<u>(2,762)</u>	
		(4,762)

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

Property Taxes	24,376	
Tuition and Fees	<u>561</u>	
		24,937

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(6,107)

Change in Net Assets of Governmental Activities \$1,191,161

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,035,152	\$2,054,038	\$2,095,686	\$41,648
Income Taxes	387,950	387,950	417,597	29,647
Intergovernmental	1,920,514	2,084,043	2,254,192	170,149
Interest	8,500	14,500	52,851	38,351
Tuition and Fees	712,420	721,500	751,506	30,006
Gifts and Donations	10,500	10,500	10,027	(473)
Miscellaneous	5,000	5,300	3,479	(1,821)
Total Revenues	<u>5,080,036</u>	<u>5,277,831</u>	<u>5,585,338</u>	<u>307,507</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,382,540	2,418,356	2,368,995	49,361
Special	356,251	376,125	384,806	(8,681)
Vocational	283,329	283,329	250,340	32,989
Other	12,567	12,936	12,776	160
Support Services:				
Pupils	87,833	87,221	81,799	5,422
Instructional Staff	150,253	153,360	143,896	9,464
Board of Education	22,016	13,020	13,319	(299)
Administration	469,990	471,062	471,023	39
Fiscal	152,725	160,317	151,002	9,315
Operation and Maintenance of Plant	428,437	454,267	455,815	(1,548)
Pupil Transportation	292,038	299,256	271,376	27,880
Central		250	250	
Extracurricular Activities	161,875	161,875	138,037	23,838
Capital Outlay	8,990	8,990	8,279	711
Total Expenditures	<u>4,808,844</u>	<u>4,900,364</u>	<u>4,751,713</u>	<u>148,651</u>
Excess of Revenues Over Expenditures	<u>271,192</u>	<u>377,467</u>	<u>833,625</u>	<u>456,158</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	300		2,000	2,000
Refund of Prior Year Expenditures	2,000	2,000	230	(1,770)
Refund of Prior Year Receipts	(300)	(300)		300
Total Other Financing Sources (Uses)	<u>2,000</u>	<u>1,700</u>	<u>2,230</u>	<u>530</u>
Changes in Fund Balance	273,192	379,167	835,855	456,688
Fund Balance at Beginning of Year	255,805	255,805	255,805	
Prior Year Encumbrances Appropriated	93,726	93,726	93,726	
Fund Balance at End of Year	<u>\$622,723</u>	<u>\$728,698</u>	<u>\$1,185,386</u>	<u>\$456,688</u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$26,007</u></u>
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Liabilities:

Undistributed Assets	36
Due to Students	<u>25,971</u>
Total Liabilities	<u><u>\$26,007</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1937. The School District serves an area of approximately seventy-two square miles. It is located in Hancock and Seneca Counties. The School District is the 574th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty-four classified employees, forty-three certified teaching personnel, and four administrative employees who provide services to six hundred sixty-three students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., West Central Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Hancock County Schools Insurance Consortium Group Health Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in two categories, governmental and fiduciary.

Governmental Funds

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2006. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various staff related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and the agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$54,402, which includes \$6,783 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks and unexpended revenues restricted for the purchase of school buses.

J. Capital Assets

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

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

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

M. Net Assets

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, the School District did not have any net assets restricted by enabling legislation.

N. Fund Balance Reserves

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

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

O. Interfund Transactions

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

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

P. Extraordinary and Special Items

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

Q. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2006, the Title I special revenue fund and the Permanent Improvement capital projects fund had deficit fund balances, in the amount of \$3,134, and \$61,757, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following funds had expenditures (including encumbrances) in excess of appropriations for the fiscal year ended June 30, 2006:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
Special Instruction	\$376,125	\$384,806	\$8,681
Board of Education	13,020	13,319	299
Operation and Maintenance of Plant	454,267	455,815	1,548

The Treasurer will review budgetary activity to avoid future violations of budgetary compliance.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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

Changes in Fund Balance	
GAAP Basis	\$1,034,344
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	298,553
Accrued FY 2006, Not Yet Received in Cash	(471,512)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(589,581)
Accrued FY 2006, Not Yet Paid in Cash	606,028
Cash Adjustments	
Unrecorded Activity FY 2005	4,682
Prepaid Items	28,929
Materials and Supplies Inventory	(2,048)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(73,540)
Budget Basis	\$835,855

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

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

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

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,556,794 of the School District's bank balance of \$1,740,829 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2006, the fair value of funds on deposit with STAR Ohio was \$109,194. The School District's investment in STAR Ohio had an average maturity of 34.8 days. STAR Ohio carries a rating of AAA by Standards and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Ohio Department of Education	\$2,220
Ohio Department of Taxation	504
Northwest Ohio Area Computer Services Cooperative (NOACSC)	150
Total Governmental Activities	<u><u>\$2,874</u></u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 8 - INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 9 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

The School District receives property taxes from Hancock and Seneca Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 9 - PROPERTY TAXES – (CONTINUED)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$150,734 in the General Fund and \$9,266 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$181,148 in the General Fund and \$4,010 in the Permanent Improvement capital projects fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$49,344,330	73.29%	\$50,240,000	73.23%
Industrial/Commercial	5,902,580	8.77	6,346,840	9.25
Public Utility	9,530,880	14.16	10,075,540	14.69
Tangible Personal	2,545,582	3.78	1,941,902	2.83
Total Assessed Value	<u>\$67,323,372</u>	<u>100%</u>	<u>\$68,604,282</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$45.28		\$43.43	

In November 2005, the School District failed to renew a 1.5 mil replacement levy.

NOTE 10 - CAPITAL ASSETS

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

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$27,410			\$27,410
Depreciable Capital Assets				
Land Improvements	177,064			177,064
Buildings and Building Improvements	1,202,290			1,202,290
Furniture, Fixtures, and Equipment	548,899	\$8,793	(\$2,783)	554,909
Vehicles	444,600		(43,040)	401,560
Total Depreciable Capital Assets	<u>2,372,853</u>	<u>8,793</u>	<u>(45,823)</u>	<u>2,335,823</u>

(continued)

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Less Accumulated Depreciation				
Land Improvements	(\$23,545)	(\$3,715)		(\$27,260)
Buildings and Building Improvements	(328,974)	(22,442)		(351,416)
Furniture, Fixtures, and Equipment	(305,813)	(20,352)	\$1,703	(324,462)
Vehicles	(219,629)	(20,048)	39,358	(200,319)
Total Accumulated Depreciation	<u>(877,961)</u>	<u>(66,557)</u>	<u>41,061</u>	<u>(903,457)</u>
Depreciable Capital Assets, Net	<u>1,494,892</u>	<u>(57,764)</u>	<u>(4,762)</u>	<u>1,432,366</u>
Governmental Activities Capital Assets, Net	<u>\$1,522,302</u>	<u>(\$57,764)</u>	<u>(\$4,762)</u>	<u>\$1,459,776</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$7,125
Special	221
Vocational	1,322
Support Services:	
Pupils	66
Instructional Staff	811
Administration	214
Fiscal	158
Operation and Maintenance of Plant	15,901
Pupil Transportation	20,544
Non-Instructional Services	6,149
Extracurricular Activities	14,046
Total Depreciation Expense	<u>\$66,557</u>

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted for the following insurance coverage:

Coverage provided by Indiana Insurance Company is as follows:

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

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

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

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004, was \$297,765, \$293,124, and \$283,828, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Amounts contributed by the School District and by plan members for the DCP and CP for the fiscal year ended June 30, 2006, are not available.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, was \$65,288, \$60,489, and \$53,166, respectively; 41 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

C. Social Security System

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$22,905.

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

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

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$33,417 for fiscal year 2006.

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

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Insurance Consortium Group Health Plan. The School District offers life insurance to all employees through Fort Dearborn Life Insurance. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 15 - NOTES PAYABLE

During fiscal year 2003, the School District issued \$500,500 in tax anticipation notes for the construction of a handicap entrance and a roof replacement. The notes were issued under the authority of Ohio Revised Code Section 133.24 for a five year period, with final maturity during fiscal year 2008. The notes have an interest rate of 3.62 percent. During fiscal year 2006, principal, in the amount of \$101,271, was retired from the Permanent Improvement capital projects fund. The outstanding balance at June 30, 2006, was \$175,115.

Principal and interest requirements to retire the notes at June 30, 2006, were as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$105,051	\$4,675	\$109,726
2008	70,064	959	71,023
Totals	\$175,115	\$5,634	\$180,749

NOTE 16 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	\$351,666	\$6,107	_____	\$357,773	\$10,447

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

The School District's overall debt margin was \$5,829,499 with an unvoted debt margin of \$66,662 at June 30, 2006.

NOTE 17 - SET ASIDES

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 17 - SET ASIDES – (CONTINUED)

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	\$19,964	
Current Year Set Aside Requirement	87,522	\$87,522
Current Year Offsets		(87,522)
Qualifying Expenditures	(106,005)	
Reserve Balance June 30, 2006	\$1,481	

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2006, the School District paid \$11,241 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Cooperative Vocational Career Center

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

C. Hancock County Local Professional Development Committee

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

D. Northwestern Ohio Educational Research Council, Inc.

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

E. West Central Regional Professional Development Center

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

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

F. Northwest Ohio Special Education Regional Resource Center

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 19 - INSURANCE POOLS

A. Hancock County Schools Insurance Consortium Group Health Plan

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

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

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

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

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

NOTE 20 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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

NOTE 20 – CONTINGENCIES – (CONTINUED)

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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



Mary Taylor, CPA
Auditor of State

January 16, 2007



Mary Taylor, CPA
Auditor of State

ARCADIA LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 8, 2007**