



Dave Yost • Auditor of State

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Arlington Local School District
Hancock County
336 South Main Street, P.O. Box 260
Arlington, Ohio 45814-0260

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio, as of June 30, 2013, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 24, 2014

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of Arlington Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

Highlights for fiscal year 2013 are as follows:

In total, net position decreased \$264,772, or approximately 5 percent, and generally due to a decrease in property taxes and State funding.

General revenues were 78 percent of total revenues and continue to reflect the District's significant dependence on 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 Arlington Local School District as a financial whole, or as an entire operating entity.

The statement of net position and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds, with all other non-major funds presented in total in a single column. For Arlington Local School District, the General Fund is the most significant fund.

Reporting the District as a Whole

The statement of net position and the statement of activities reflect how the District did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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

Reporting the District's Most Significant Funds

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

Governmental Funds - All of the 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 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 District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net position for fiscal year 2013 and fiscal year 2012:

Table 1
Net Position

	Governmental Activities		
	2013	2012	Change
<u>Assets:</u>			
Current and Other Assets	\$3,915,585	\$4,249,939	(\$334,354)
Capital Assets, Net	4,507,899	4,641,937	(134,038)
Total Assets	8,423,484	8,891,876	(468,392)
<u>Liabilities:</u>			
Current and Other Liabilities	747,226	744,005	(3,221)
Long-Term Liabilities	1,079,082	1,270,980	191,898
Total Liabilities	1,826,308	2,014,985	188,677
			(continued)

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 1
Net Position
(continued)

	Governmental Activities		
	2013	2012	Change
<u>Deferred Inflows of Resources</u>	\$1,148,623	\$1,163,566	\$14,943
<u>Net Position:</u>			
Net Investment in Capital Assets	3,867,899	3,881,937	(14,038)
Restricted	706,221	627,158	79,063
Unrestricted	874,433	1,204,230	(329,797)
Total Net Position	<u>\$5,448,553</u>	<u>\$5,713,325</u>	<u>(\$264,772)</u>

Overall, net position decreased 5 percent from the prior fiscal year. The decrease in current and other assets was primarily a decrease in cash and cash equivalents due to cash carryover spending, primarily in the General Fund. This decrease is also reflected in the decrease in unrestricted net position. The decrease in long-term liabilities reflects the retirement of debt principal.

Table 2 reflects the change in net position for fiscal year 2013 and fiscal year 2012.

Table 2
Change in Net Position

	Governmental Activities		
	2013	2012	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$568,583	\$537,685	\$30,898
Operating Grants, Contributions, and Interest	845,420	827,444	17,976
Capital Grants and Contributions	0	7,322	(7,322)
Total Program Revenues	<u>1,414,003</u>	<u>1,372,451</u>	<u>41,552</u>
General Revenues			
Property Taxes Levied for General Purposes	1,257,520	1,361,870	(104,350)
Property Taxes Levied for Debt Service	85,145	96,391	(11,246)
Income Taxes Levied for General Purposes	1,090,918	1,010,406	80,512
Grants and Entitlements	2,660,066	2,799,005	(138,939)
Interest	5,137	5,799	(662)
Gifts and Donations	2,109	1,710	399
Miscellaneous	59,309	47,335	11,974
Total General Revenues	<u>5,160,204</u>	<u>5,322,516</u>	<u>(162,312)</u>
Total Revenues	<u>6,574,207</u>	<u>6,694,967</u>	<u>(120,760)</u>

(continued)

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2
Change in Net Position
(continued)

	Governmental Activities		
	2013	2012	Change
<u>Expenses</u>			
Instruction:			
Regular	\$3,061,211	\$3,109,191	\$47,980
Special	776,659	769,139	(7,520)
Vocational	256,892	319,632	62,740
Support Services:			
Pupils	282,116	279,452	(2,664)
Instructional Staff	308,801	300,987	(7,814)
Board of Education	37,801	21,508	(16,293)
Administration	531,669	510,439	(21,230)
Fiscal	197,621	224,771	27,150
Operation and Maintenance of Plant	546,203	490,951	(55,252)
Pupil Transportation	271,426	261,038	(10,388)
Central	1,263	1,054	(209)
Non-Instructional Services	256,954	256,521	(433)
Extracurricular Activities	292,163	313,222	21,059
Interest and Fiscal Charges	18,200	23,260	5,060
Total Expenses	<u>6,838,979</u>	<u>6,881,165</u>	<u>42,186</u>
Decrease in Net Position	(264,772)	(186,198)	(78,574)
Net Position at Beginning of Year	<u>5,713,325</u>	<u>5,899,523</u>	<u>(186,198)</u>
Net Position at End of Year	<u><u>\$5,448,553</u></u>	<u><u>\$5,713,325</u></u>	<u><u>(\$264,772)</u></u>

There was an overall decrease in revenues of approximately 2 percent. There was a slight increase in program revenues; an increase in open enrollment generated additional tuition and fees (charges for services). For general revenues, there was a slight increase in income tax revenue and the economy continues its slow improvement; however, this was more than offset by the decrease in property tax revenue and a reduction in State funding resources (foundation and grants).

The change in program expenses was less than 1 percent with no changes of significance.

As to be expected, the District's greatest expenses are for instruction which accounted for 60 percent of all governmental expenses. However, other programs supporting the instruction process also account for a significant portion of the District's expenses, such as pupils, instructional staff, and pupil transportation (13 percent). Maintenance of the District's facilities also represents a significant expense, 8 percent.

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.

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction:				
Regular	\$3,061,211	\$3,109,191	\$2,655,923	\$2,788,398
Special	776,659	769,139	296,250	262,542
Vocational	256,892	319,632	209,460	272,566
Support Services:				
Pupils	282,116	279,452	171,283	165,814
Instructional Staff	308,801	300,987	308,801	300,987
Board of Education	37,801	21,508	37,801	21,508
Administration	531,669	510,439	531,669	510,439
Fiscal	197,621	224,771	197,621	224,771
Operation and Maintenance of Plant	546,203	490,951	546,203	490,951
Pupil Transportation	271,426	261,038	271,426	261,038
Central	1,263	1,054	1,263	1,054
Non-Instructional Services	256,954	256,521	(11,924)	(15,600)
Extracurricular Activities	292,163	313,222	191,000	200,986
Interest and Fiscal Charges	18,200	23,260	18,200	23,260
Total Expenses	<u>\$6,838,979</u>	<u>\$6,881,165</u>	<u>\$5,424,976</u>	<u>\$5,508,714</u>

With the substantial contribution of general revenues for funding the District's activities, only a limited number of activities are affected by program revenues. Approximately 62 percent of special instruction costs are provided for through operating grants for special instruction programs. All of non-instructional services costs were provided for through program revenues for fiscal year 2013. This consists of cafeteria sales, state and federal subsidies, and donated commodities for food service operations. A good portion, 35 percent, of extracurricular activities costs are covered by program revenues. These consist of music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major fund, the General Fund, had a 19 percent decrease in fund balance due to cash carryover spending (revenues were similar to the prior fiscal year and there was a modest increase in expenditures).

General Fund Budgeting Highlights

The 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.

Arlington Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

During fiscal year 2013, the District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were not significant. For expenditures, there was no change from the original budget to the final budget and changes final budget to actual expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the District had \$4,507,899 net investments in capital assets (net of accumulated depreciation). Additions and disposals were minimal. For further information regarding the District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2013, the District had outstanding energy conservation bonds and refunding school improvement bonds, in the amount of \$475,000 and \$165,000, respectively. The bonds were issued for an energy conservation project and for constructing a building addition. The District's long-term obligations also included compensated absences. For further information regarding the District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

The Arlington Local School District is a rural, agricultural community with very little industry; it is also the focal point of the community providing weekend sporting events and musical productions. A high percentage of people live and work here long-term and the community supports the District throughout its many endeavors. A high percentage of the students participate in athletics and the arts.

The existing negotiated agreement was a two year agreement that expired June 30, 2013. In fiscal year 2012, all employees received no pay or step increase. The contract contained a reopen clause for salaries that was negotiated in the spring of 2012 for fiscal year 2013.

The District pursued a new building project through the Ohio School Facilities Commission; however, it was defeated by the voters in May 2011. The Board of Education will continue to discuss a future vision for the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the 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 Angie Spridgeon, Treasurer, Arlington Local School District, 336 South Main Street, Arlington, Ohio 45814-0260.

Arlington Local School District
Statement of Net Position
June 30, 2013

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,955,411
Accounts Receivable	6,186
Accrued Interest Receivable	293
Intergovernmental Receivable	72,331
Prepaid Items	28,088
Inventory Held for Resale	36,189
Materials and Supplies Inventory	10,204
Income Taxes Receivable	457,992
Property Taxes Receivable	1,348,891
Nondepreciable Capital Assets	309,090
Depreciable Capital Assets, Net	4,198,809
Total Assets	8,423,484
 <u>Liabilities:</u>	
Accounts Payable	28,575
Accrued Wages and Benefits Payable	508,204
Matured Compensated Absences Payable	57,014
Intergovernmental Payable	152,092
Accrued Interest Payable	1,341
Long-Term Liabilities:	
Due Within One Year	165,103
Due in More Than One Year	913,979
Total Liabilities	1,826,308
 <u>Deferred Inflows of Resources</u>	
Property Taxes Receivable	1,148,623
 <u>Net Position:</u>	
Net Investment in Capital Assets	3,867,899
Restricted For:	
Set Asides	426,275
Debt Service	79,102
Food Service	100,727
Athletics	60,087
Other Purposes	40,030
Unrestricted	874,433
Total Net Position	\$5,448,553

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues	
Expenses	Charges for Services	Operating Grants, Contributions, and Interest
<u>Governmental Activities:</u>		
Instruction:		
Regular	\$3,061,211	\$284,064
Special	776,659	16,157
Vocational	256,892	600
Support Services:		
Pupils	282,116	0
Instructional Staff	308,801	0
Board of Education	37,801	0
Administration	531,669	0
Fiscal	197,621	0
Operation and Maintenance of Plant	546,203	0
Pupil Transportation	271,426	0
Central	1,263	0
Non-Instructional Services	256,954	171,247
Extracurricular Activities	292,163	96,515
Interest and Fiscal Charges	18,200	0
Total Governmental Activities	<u>\$6,838,979</u>	<u>\$568,583</u>

General Revenues:

Property Taxes Levied for General Purposes
Property Taxes Levied for Debt Service
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Position

Net Position Beginning of Year
Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental
Activities

	(\$2,655,923)
	(296,250)
	(209,460)
	(171,283)
	(308,801)
	(37,801)
	(531,669)
	(197,621)
	(546,203)
	(271,426)
	(1,263)
	11,924
	(191,000)
	(18,200)
	<u>(5,424,976)</u>

	1,257,520
	85,145
	1,090,918
	2,660,066
	5,137
	2,109
	59,309
	<u>5,160,204</u>
	(264,772)
	5,713,325
	<u><u>\$5,448,553</u></u>

Arlington Local School District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,288,646	\$240,490	\$1,529,136
Accounts Receivable	6,186	0	6,186
Accrued Interest Receivable	293	0	293
Interfund Receivable	1,050	0	1,050
Intergovernmental Receivable	27,878	44,453	72,331
Prepaid Items	28,088	0	28,088
Inventory Held for Resale	0	36,189	36,189
Materials and Supplies Inventory	9,275	929	10,204
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	426,275	0	426,275
Income Taxes Receivable	457,992	0	457,992
Property Taxes Receivable	1,263,950	84,941	1,348,891
Total Assets	<u>\$3,509,633</u>	<u>\$407,002</u>	<u>\$3,916,635</u>
<u>Liabilities</u>			
Accounts Payable	\$22,423	\$6,152	\$28,575
Accrued Wages and Benefits Payable	483,855	24,349	508,204
Matured Compensated Absences Payable	57,014	0	57,014
Interfund Payable	0	1,050	1,050
Intergovernmental Payable	145,775	6,317	152,092
Total Liabilities	<u>709,067</u>	<u>37,868</u>	<u>746,935</u>
<u>Deferred Inflows of Resources</u>			
Property Taxes Receivable	1,076,835	71,788	1,148,623
Unavailable Revenue	108,119	25,553	133,672
Total Deferred Inflows of Resources	<u>1,184,954</u>	<u>97,341</u>	<u>1,282,295</u>
<u>Fund Balances:</u>			
Nonspendable	37,363	929	38,292
Restricted	426,275	272,377	698,652
Committed	2,062	0	2,062
Assigned	536,733	0	536,733
Unassigned (Deficit)	613,179	(1,513)	611,666
Total Fund Balances	<u>1,615,612</u>	<u>271,793</u>	<u>1,887,405</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$3,509,633</u>	<u>\$407,002</u>	<u>\$3,916,635</u>

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2013

Total Governmental Fund Balances	\$1,887,405
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Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,507,899
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds:

Accounts Receivable	5,424	
Intergovernmental Receivable	41,522	
Income Taxes Receivable	68,458	
Delinquent Property Taxes Receivable	18,268	
		133,672

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

Accrued Interest Payable	(1,341)	
Energy Conservation Bonds Payable	(475,000)	
Refunding School Improvement Bonds Payable	(165,000)	
Compensated Absences Payable	(439,082)	
		(1,080,423)

Net Position of Governmental Activities	\$5,448,553
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See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$1,274,859	\$86,417	\$1,361,276
Income Taxes	1,086,726	0	1,086,726
Intergovernmental	3,108,072	364,886	3,472,958
Interest	4,981	358	5,339
Tuition and Fees	299,492	0	299,492
Extracurricular Activities	555	95,960	96,515
Charges for Services	0	171,247	171,247
Gifts and Donations	2,109	7,926	10,035
Miscellaneous	42,037	150	42,187
Total Revenues	<u>5,818,831</u>	<u>726,944</u>	<u>6,545,775</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	2,985,646	83,477	3,069,123
Special	758,249	31,831	790,080
Vocational	254,633	0	254,633
Support Services:			
Pupils	185,303	113,155	298,458
Instructional Staff	287,385	19,359	306,744
Board of Education	37,801	0	37,801
Administration	536,382	0	536,382
Fiscal	195,586	1,749	197,335
Operation and Maintenance of Plant	494,552	0	494,552
Pupil Transportation	233,424	0	233,424
Central	1,263	0	1,263
Non-Instructional Services	0	262,907	262,907
Extracurricular Activities	175,468	101,469	276,937
Debt Service:			
Principal Retirement	35,000	85,000	120,000
Interest and Fiscal Charges	7,191	11,431	18,622
Total Expenditures	<u>6,187,883</u>	<u>710,378</u>	<u>6,898,261</u>
Excess of Revenues Over (Under) Expenditures	(369,052)	16,566	(352,486)
<u>Other Financing Source:</u>			
Sale of Capital Assets	<u>1,000</u>	<u>0</u>	<u>1,000</u>
Changes in Fund Balances	(368,052)	16,566	(351,486)
Fund Balances at Beginning of Year	<u>1,983,664</u>	<u>255,227</u>	<u>2,238,891</u>
Fund Balances at End of Year	<u>\$1,615,612</u>	<u>\$271,793</u>	<u>\$1,887,405</u>

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
 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, 2013

Changes in Fund Balances - Total Governmental Funds (\$351,486)

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	57,747	
Depreciation	(177,213)	
	(119,466)	(119,466)

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 position 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.

Proceeds from Sale of Capital Assets	(8,100)	
Loss on Disposal of Capital Assets	(6,472)	
	(14,572)	(14,572)

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

Delinquent Property Taxes	(18,611)	
Income Taxes	4,192	
Intergovernmental	24,400	
Tuition and Fees	1,329	
Miscellaneous	17,122	
	28,432	28,432

Repayment of principal is an expenditure in governmental funds but the repayment reduces long-term liabilities on the statement of net position.

Energy Conservation Bonds	35,000	
Refunding School Improvement Bonds	85,000	
	120,000	120,000

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net position. 422

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. 71,898

Change in Net Position of Governmental Activities (\$264,772)

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$1,261,805	\$1,239,907	\$1,279,859	\$39,952
Income Taxes	982,874	982,874	1,055,546	72,672
Intergovernmental	3,253,017	3,253,017	3,107,916	(145,101)
Interest	5,350	5,350	4,899	(451)
Tuition and Fees	219,315	219,315	299,667	80,352
Extracurricular Activities	1,500	1,750	555	(1,195)
Gifts and Donations	5,500	5,500	2,109	(3,391)
Miscellaneous	16,625	16,625	15,349	(1,276)
Total Revenues	<u>5,745,986</u>	<u>5,724,338</u>	<u>5,765,900</u>	<u>41,562</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,043,109	3,043,109	2,986,370	56,739
Special	685,116	685,116	762,051	(76,935)
Vocational	325,506	325,506	255,022	70,484
Support Services:				
Pupils	169,050	169,050	168,625	425
Instructional Staff	335,899	335,899	290,015	45,884
Board of Education	43,039	43,039	40,775	2,264
Administration	548,533	548,533	519,512	29,021
Fiscal	223,835	223,835	196,846	26,989
Operation and Maintenance of Plant	530,449	530,449	530,172	277
Pupil Transportation	234,020	234,020	232,477	1,543
Central	2,100	2,100	1,263	837
Extracurricular Activities	176,660	176,660	175,498	1,162
Debt Service:				
Principal Retirement	35,000	35,000	35,000	0
Interest and Fiscal Charges	7,191	7,191	7,191	0
Total Expenditures	<u>6,359,507</u>	<u>6,359,507</u>	<u>6,200,817</u>	<u>158,690</u>
Excess of Revenues				
Under Expenditures	<u>(613,521)</u>	<u>(635,169)</u>	<u>(434,917)</u>	<u>200,252</u>
<u>Other Financing Sources:</u>				
Sale of Capital Assets	0	0	1,000	1,000
Refund of Prior Year Expenditures	1,000	1,000	15,979	14,979
Total Other Financing Sources	<u>1,000</u>	<u>1,000</u>	<u>16,979</u>	<u>15,979</u>
Changes in Fund Balance	(612,521)	(634,169)	(417,938)	216,231
Fund Balance at Beginning of Year	2,058,061	2,058,061	2,058,061	0
Prior Year Encumbrances Appropriated	27,851	27,851	27,851	0
Fund Balance at End of Year	<u>\$1,473,391</u>	<u>\$1,451,743</u>	<u>\$1,667,974</u>	<u>\$216,231</u>

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$2,336	\$26,331
<u>Liabilities:</u>		
Due to Students	0	\$26,331
<u>Net Position:</u>		
Held in Trust for Scholarships	\$2,336	

See Accompanying Notes to the Basic Financial Statements

Arlington Local School District
Statement of Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2013

Additions:

Gifts and Donations	\$1,980
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Deductions:

Non-Instructional Services	2,500
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Change in Net Position	(520)
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Net Position at Beginning of Year	2,856
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Net Position at End of Year	<u><u>\$2,336</u></u>
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See Accompanying Notes to the Basic Financial Statements

Note 1 - Description of the District and Reporting Entity

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

The District was established in 1923. The District serves an area of approximately seventy-six square miles. It is located in Hancock County, and includes all of the Village of Arlington and portions of Eagle, Jackson, Madison, and Van Buren Townships. The District is the 577th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty-six classified employees, forty-seven certified teaching personnel, and four administrative employees who provide services to six hundred five students and other community members. The District currently operates one facility which includes the elementary, middle, and high schools.

Reporting Entity

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

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

The District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Notes 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Arlington Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the District’s accounting policies.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the District has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the 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 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. 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 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 District are divided into two categories, governmental and fiduciary.

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the 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 and deferred inflows of resources is reported as fund balance. The District's only major fund is the General Fund.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for a program that provides college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for various student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

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.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

Note 2 - Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On 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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District did not report any deferred outflows of resources for fiscal year 2013.

Note 2 - Summary of Significant Accounting Policies (continued)

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes and unavailable revenue. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

Expenses/Expenditures

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

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

E. Budgetary Process

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

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Investments

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

During fiscal year 2013, investments consisted of nonnegotiable certificates of deposit, which are recorded at cost.

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 2013 was \$4,981, which includes \$563 assigned from other District funds.

Investments of the District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the 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, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

J. Capital Assets

All of the 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 position 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 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.

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:

Description	Useful Lives
Land Improvements	10 - 100 years
Buildings and Building Improvements	10 - 100 years
Furniture, Fixtures, and Equipment	5 - 75 years
Vehicles	12 - 20 years
Infrastructure	50 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or unpaid amounts for services provided are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities are eliminated on the statement of net position.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The 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 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 District’s termination policy. The District records a liability for accumulated unused sick leave for all employees after eight years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid.

M. Accrued Liabilities and Long-Term Obligations

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

N. Net Position

Net position represents the difference between all other elements on the statement of net position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and state grants. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

O. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Note 2 - Summary of Significant Accounting Policies (continued)

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

P. Interfund Transactions

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

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

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

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 2013, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 61, "The Financial Reporting Entity: Omnibus", Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 65, "Items Previously Reported as Assets and Liabilities", and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to the District's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and the financial reporting entity display and disclosure requirements. The implementation of this statement did not result in any change to the District's financial statements.

Note 3 - Change in Accounting Principles (continued)

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the District's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the District's fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the District's fiscal year 2013 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and, thereby, enhance the usefulness of the financial reports. The implementation of this statement did not result in any change to the District's financial statements.

Note 4 - Accountability

At June 30, 2013, the Title I and Title II-A special revenue funds had deficit fund balances, in the amount of \$564 and \$949, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the 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.

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 5 - Budgetary Basis of Accounting (continued)

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 restricted, committed, or assigned fund balance (GAAP basis).

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

Changes in Fund Balance	
GAAP Basis	(\$368,052)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2012, Received in Cash FY 2013	537,321
Accrued FY 2013, Not Yet Received in Cash	(572,395)
Expenditure Accruals:	
Accrued FY 2012, Paid in Cash FY 2013	(671,562)
Accrued FY 2013, Not Yet Paid in Cash	709,067
Cash Adjustments:	
Unrecorded Activity FY 2012	(1,878)
Prepaid Items	(2,723)
Materials and Supplies Inventory	(769)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(46,947)
Budget Basis	(\$417,938)

Note 6 - Deposits and Investments

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

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

Note 6 - Deposits and Investments (continued)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirement have been met.

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

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 6 - Deposits and Investments (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end \$251,519 of the District's bank balance of \$2,056,771 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 District to a successful claim by the FDIC.

The 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 District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Note 7 - Receivables

Receivables at June 30, 2013, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
State of Ohio	\$156
Bureau of Workers' Compensation	10,600
School Employees Retirement System of Ohio	17,122
Total General Fund	27,878

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 7 – Receivables (continued)

	Amount
Other Governmental Funds	
Race to the Top	\$18,824
Title I	4,775
Title II-A	1,137
Rural Education Achievement Program	19,717
Total Other Governmental Funds	44,453
Total Governmental Activities	<u>\$72,331</u>

Note 8 - Income Taxes

The District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1996, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the 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 District's fiscal year runs from July through June. First-half tax distributions are received by the 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 and public utility property located in the District. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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.

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 9 - Property Taxes (continued)

The District receives property taxes from Hancock County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2013, 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 were levied to finance current fiscal year operations and are 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 inflows of resources - property taxes.

The amount available as an advance at June 30, 2013, was \$170,000 in the General Fund and \$12,000 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2012, was \$175,000 in the General Fund and \$12,000 in the Bond Retirement debt service fund.

On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The assessed values upon which fiscal year 2013 taxes were collected are:

	2012 Second- Half Collections		2013 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$65,795,100	92.20%	\$65,713,050	92.07%
Industrial/Commercial	3,612,850	5.06	3,613,470	5.06
Public Utility	1,952,960	2.74	2,047,850	2.87
Total Assessed Value	<u>\$71,360,910</u>	<u>100.00%</u>	<u>\$71,374,370</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.81		\$32.75	

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance at 6/30/12	Additions	Reductions	Balance at 6/30/13
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$309,090	\$0	\$0	\$309,090

(continued)

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 10 - Capital Assets (continued)

	Balance at 6/30/12	Additions	Reductions	Balance at 6/30/13
Depreciable Capital Assets				
Land Improvements	\$164,358	\$0	\$0	\$164,358
Buildings and Building Improvements	4,864,937	0	0	4,864,937
Furniture, Fixtures, and Equipment	930,041	57,747	(83,539)	904,249
Vehicles	590,536	0	0	590,536
Infrastructure	11,856	0	0	11,856
Total Depreciable Capital Assets	<u>6,561,728</u>	<u>57,747</u>	<u>(83,539)</u>	<u>6,535,936</u>
Less Accumulated Depreciation				
Land Improvements	(78,593)	(3,921)	0	(82,514)
Buildings and Building Improvements	(1,329,901)	(83,262)	0	(1,413,163)
Furniture, Fixtures, and Equipment	(513,814)	(49,195)	68,967	(494,042)
Vehicles	(303,946)	(40,598)	0	(344,544)
Infrastructure	(2,627)	(237)	0	(2,864)
Total Accumulated Depreciation	<u>(2,228,881)</u>	<u>(177,213)</u>	<u>68,967</u>	<u>(2,337,127)</u>
Depreciable Capital Assets, Net	<u>4,332,847</u>	<u>(119,466)</u>	<u>(14,572)</u>	<u>4,198,809</u>
Governmental Activities Capital Assets, Net	<u>\$4,641,937</u>	<u>(\$119,466)</u>	<u>(\$14,572)</u>	<u>\$4,507,899</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$43,182
Special	338
Vocational	2,259
Support Services:	
Pupils	202
Instructional Staff	1,125
Administration	373
Fiscal	271
Operation and Maintenance of Plant	56,470
Pupil Transportation	41,170
Non-Instructional Services	7,046
Extracurricular Activities	24,777
Total Depreciation Expense	<u>\$177,213</u>

Note 11 - Interfund Assets/Liabilities

At June 30, 2013, the General Fund had an interfund receivable from other governmental funds, in the amount of \$1,050 for services provided.

Note 12 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the District contracted for the following insurance coverage.

Coverage provided by United Insurance Service is as follows:

Building and Contents	\$21,749,093
General District Liability	12,000,000
Automobile Liability	12,000,000
Uninsured Motorists	1,000,000

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

For fiscal year 2013, the District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

For fiscal year 2013, the 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 District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 13 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the 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. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased 1 percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$332,750 and \$6,134 for the fiscal year ended June 30, 2013, \$351,391 and \$6,054 for the fiscal year ended June 30, 2012, and \$304,203 and \$5,956 for the fiscal year ended June 30, 2011. For fiscal year 2013, 84 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The contribution to STRS Ohio for the DCP for fiscal year 2013 was \$17,493 made by the District and \$12,495 made by the plan members. In addition, member contributions of \$4,381 were made for fiscal year 2013 for the defined contribution portion of the CP.

Note 13 - Defined Benefit Pension Plans (continued)

B. School Employees Retirement System

Plan Description - The District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.1 percent. The remaining .9 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 was \$95,456, \$88,591, and \$89,705, respectively. For fiscal year 2013, 49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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, 2012, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - The District participates in a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Note 14 - Postemployment Benefits (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The District's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$27,414, \$27,985, and \$24,351, respectively. For fiscal year 2013, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. School Employees Retirement System

Plan Description - The District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, .16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2013, this amount was \$20,525. For fiscal year 2013, the District paid \$13,132 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The District's contribution for health care for the fiscal years ended June 30, 2013, 2012, and 2011 was \$1,166, \$3,837, and \$10,862, respectively. For fiscal year 2013, 49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2013, this actuarially required allocation was .74 percent of covered payroll. The District's contribution for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 was \$5,392, \$5,232, and \$5,773, respectively. For fiscal year 2013, 49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 15 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred five days for all school personnel. Upon retirement, payment is made for 27 percent of accrued but unused sick leave credit to a maximum of fifty-five days.

B. Health Care Benefits

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

Note 16 - Long-Term Obligations

Changes in the District's long-term obligations during fiscal year 2013 were as follows:

	<u>Balance at</u> <u>6/30/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>6/30/13</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities					
General Obligation Bonds					
FY10 Energy Conservation Bonds					
1.46%	\$510,000	\$0	\$35,000	\$475,000	\$35,000
FY00 Refunding School					
Improvement Bonds					
Term Bonds 5.1%	<u>250,000</u>	<u>0</u>	<u>85,000</u>	<u>165,000</u>	<u>85,000</u>
Total General Obligation Bonds	760,000	0	120,000	640,000	120,000
Compensated Absences Payable	<u>510,980</u>	<u>0</u>	<u>71,898</u>	<u>439,082</u>	<u>45,103</u>
Total Governmental Activities					
Long -Term Obligations	<u>\$1,270,980</u>	<u>\$0</u>	<u>\$191,898</u>	<u>\$1,079,082</u>	<u>\$165,103</u>

FY 2010 Energy Conservation Bonds - On March 30, 2010, the District issued bonds, in the amount of \$570,000 to pay costs of energy conservation improvements to buildings. The bonds were issued for a fifteen year period, with final maturity during fiscal year 2025.

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Long-Term Obligations (continued)

The bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2010	\$25,000
2011	35,000
2012	35,000
2013	35,000
2014	35,000
2015	40,000
2016	40,000
2017	40,000
2018	40,000
2019	40,000
2020	40,000
2021	40,000
2022	40,000
2023	40,000

The remaining principal, in the amount of \$45,000, will be paid at stated maturity on December 1, 2024.

FY 2000 Refunding School Improvement Bonds - On November 1, 1999, the District issued bonds, in the amount of \$1,144,210, to refund bonds previously issued in fiscal year 1992, in the amount of \$1,990,000, for constructing a building addition to house the elementary school library, elementary classrooms, and a new gymnasium. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$625,000, \$425,000, and \$94,210, respectively. The bonds were issued for a fifteen year period, with final maturity during fiscal year 2015. The serial and capital appreciation bonds are fully retired.

The term bonds maturing on December 1, 2014, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2013 (with the balance of \$80,000 to be paid at stated maturity on December 1, 2014), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2013	\$85,000

Term bonds redeemed by other than mandatory redemption, or purchased for cancellation may be credited against the applicable mandatory redemption requirement.

The refunded bonds have been fully retired.

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

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 16 - Long-Term Obligations (continued)

The District's overall debt margin was \$6,162,843 with an unvoted debt margin of \$69,428 at June 30, 2013.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Term	Interest	Total
2014	\$120,000	\$13,478	\$133,478
2015	115,000	8,389	123,389
2016	40,000	5,621	45,621
2017	40,000	5,037	45,037
2018	40,000	4,453	44,453
2019-2023	200,000	13,504	213,504
2024-2025	85,000	1,278	86,278
	\$640,000	\$51,760	\$691,760

Note 17 - Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Materials and Supplies Inventory	\$9,275	\$929	\$10,204
Prepaid Items	28,088	0	28,088
Total Nonspendable	37,363	929	38,292
Restricted for:			
Athletics and Music	0	60,087	60,087
Capital Improvements	426,275	0	426,275
Debt Retirement	0	79,290	79,290
Food Service Operations	0	117,370	117,370
Regular Instruction	0	15,630	15,630
Total Restricted	426,275	272,377	698,652

(continued)

Arlington Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 17 - Fund Balance (continued)

Fund Balance	General	Other Governmental	Total Governmental Funds
Committed for:			
Future Severance Payments	\$2,062	\$0	\$2,062
Assigned for:			
Educational Activities	44,627	0	44,627
Projected Budget Deficit Allocation	456,169	0	456,169
Unpaid Obligations	35,937	0	35,937
Total Assigned	536,733	0	536,733
Unassigned (Deficit)	613,179	(1,513)	611,666
Total Fund Balance	\$1,615,612	\$271,793	\$1,887,405

Note 18 - Set Asides

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. The amount 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. This amount must be carried forward and used for the same purpose in future years. The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2013.

Balance June 30, 2012	\$381,530
Current Year Set Aside Requirement	103,635
Qualifying Expenditures	(58,890)
Balance June 30, 2013	<u>\$426,275</u>

Note 19 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood 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 educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2013, the District paid \$17,383 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center (Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Center provides vocational instruction to students. The 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, 1100 Broad Avenue, Findlay Ohio 45840.

C. Hancock County Local Professional Development Committee

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

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

Note 20 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund 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 Developmental Disabilities. The Fund is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants. Each participants' superintendent is appointed to the Health Benefit Fund Board who works with a consultant in managing the operation of the fund.

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

The 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 21 - Contingencies

A. Grants

The 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 District at June 30, 2013.

B. Litigation

There are currently no matters in litigation with the District as defendant.



Dave Yost • Auditor of State

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

Arlington Local School District
Hancock County
336 South Main Street, P.O. Box 260
Arlington, Ohio 45814-0260

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 24, 2014, wherein we noted the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

January 24, 2014



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Arlington Local School District
Hancock County
336 South Main Street, P.O. Box 260
Arlington, Ohio 45814-0260

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Arlington Local School District, Hancock County, Ohio (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on February 19, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 24, 2014

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Dave Yost • Auditor of State

ARLINGTON LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 11, 2014