



**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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 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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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www.auditor.state.oh.us

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 8, 2009

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of Arlington Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2008 are as follows:

In total, net assets increased \$100,571, or less than 2 percent.

General revenues were 82 percent of total revenues and continue to reflect the School District's significant dependence on taxes and unrestricted state entitlements.

The School District recorded 2,097 volunteer hours in the elementary school during fiscal year 2008.

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

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

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2008. 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

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

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

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2008 and fiscal year 2007:

	Table 1 Net Assets		
	Governmental Activities		
	2008	2007	Change
<u>Assets:</u>			
Current and Other Assets	\$5,433,437	\$5,311,805	\$121,632
Capital Assets, Net	4,140,721	4,239,194	(98,473)
Total Assets	<u>9,574,158</u>	<u>9,550,999</u>	<u>23,159</u>

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 1
Net Assets
(Continued)

	Governmental Activities		
	2008	2007	Change
<u>Liabilities:</u>			
Current and Other Liabilities	\$1,893,953	\$1,888,801	(\$5,152)
Long-Term Liabilities	1,138,810	1,221,374	82,564
Total Liabilities	<u>3,032,763</u>	<u>3,110,175</u>	<u>77,412</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	3,658,758	3,719,984	(61,226)
Restricted	451,989	380,995	70,994
Unrestricted	2,430,648	2,339,845	90,803
Total Net Assets	<u>\$6,541,395</u>	<u>\$6,440,824</u>	<u>\$100,571</u>

As mentioned previously, the change in net assets from the prior fiscal year was less than 2 percent, which is not significant. A review of the above table demonstrates little change in assets, liabilities, or net assets. A further review of the individual accounts making up the categories listed above also reflects very little change.

Table 2 reflects the changes in net assets for fiscal year 2008 and fiscal year 2007.

Table 2
Change in Net Assets

	Governmental Activities		
	2008	2007	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$461,359	\$424,737	\$36,622
Operating Grants, Contributions, and Interest	670,496	589,639	80,857
Capital Grants and Contributions	4,984	7,270	(2,286)
Total Program Revenues	<u>1,136,839</u>	<u>1,021,646</u>	<u>115,193</u>

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(Continued)

	Governmental Activities		
	2008	2007	Change
General Revenues			
Property Taxes Levied for General Purposes	\$1,207,674	\$1,128,611	\$79,063
Property Taxes Levied for Debt Service	120,767	122,972	(2,205)
Income Taxes Levied for General Purposes	926,125	861,897	64,228
Grants and Entitlements	2,903,409	2,769,663	133,746
Interest	156,215	198,331	(42,116)
Gifts and Donations	17,688	22,840	(5,152)
Miscellaneous	27,082	27,053	29
Total General Revenues	<u>5,358,960</u>	<u>5,131,367</u>	<u>227,593</u>
Total Revenues	<u>6,495,799</u>	<u>6,153,013</u>	<u>342,786</u>
<u>Expenses</u>			
Instruction:			
Regular	2,871,975	2,698,764	(173,211)
Special	622,235	513,967	(108,268)
Vocational	259,130	224,640	(34,490)
Support Services:			
Pupils	296,155	292,555	(3,600)
Instructional Staff	353,517	300,396	(53,121)
Board of Education	36,007	24,297	(11,710)
Administration	467,620	417,001	(50,619)
Fiscal	204,266	199,394	(4,872)
Operation and Maintenance of Plant	493,127	490,003	(3,124)
Pupil Transportation	219,986	236,116	16,130
Central	1,703	1,186	(517)
Non-Instructional Services	251,613	242,601	(9,012)
Extracurricular Activities	281,622	267,361	(14,261)
Interest and Fiscal Charges	36,272	52,555	16,283
Total Expenses	<u>6,395,228</u>	<u>5,960,836</u>	<u>(434,392)</u>
Increase in Net Assets	100,571	192,177	(91,606)
Net Assets at Beginning of Year	6,440,824	6,248,647	192,177
Net Assets at End of Year	<u>\$6,541,395</u>	<u>\$6,440,824</u>	<u>\$100,571</u>

Program revenues only represent 18 percent of total revenues (up 1 percent from the prior fiscal year) and primarily consist of tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues.

General revenues are made up almost entirely of property taxes, income taxes, and unrestricted state entitlements.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Program expenses in fiscal year 2008 were fairly comparable to fiscal year 2007 with an overall increase of just over 7 percent. The major program expenses for governmental activities are for instruction, which account for 59 percent of all governmental expenses. Increases in regular and special instruction are due to contractual services and benefits increases. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation accounted for 14 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, 8 percent. Therefore, 81 percent of the School District's expenses are directly related to the primary functions of providing facilities and delivering education.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction:				
Regular	\$2,871,975	\$2,698,764	\$2,618,938	\$2,464,758
Special	622,235	513,967	306,850	268,097
Vocational	259,130	224,640	220,735	189,674
Support Services:				
Pupils	296,155	292,555	152,648	152,990
Instructional Staff	353,517	300,396	353,517	300,396
Board of Education	36,007	24,297	36,007	24,297
Administration	467,620	417,001	467,620	417,001
Fiscal	204,266	199,394	204,266	199,394
Operation and Maintenance of Plant	493,127	490,003	493,127	490,003
Pupil Transportation	219,986	236,116	217,536	231,644
Central	1,703	1,186	1,703	1,186
Non-Instructional Services	251,613	242,601	(28,760)	(22,495)
Extracurricular Activities	281,622	267,361	177,930	169,690
Interest and Fiscal Charges	36,272	52,555	36,272	52,555
Total Expenses	<u>\$6,395,228</u>	<u>\$5,960,836</u>	<u>\$5,258,389</u>	<u>\$4,939,190</u>

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately 51 percent of special instruction costs are provided for through operating grants for special instruction programs. Program revenues exceeded non-instructional services costs again for fiscal year 2008. These program revenues consist of cafeteria sales, state and federal subsidies, and donated commodities for food service operations. A good portion, almost 37 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's major fund, the General Fund, had a 2 percent increase in fund balance. This change is very insignificant.

General Fund Budgeting Highlights

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

During fiscal year 2008, the School District amended its General Fund budget as needed. For both revenues and expenditures, changes from the original budget to the final budget and from the final budget to actual revenues and expenditures were not significant.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$4,140,721 invested in capital assets (net of accumulated depreciation), a decrease of \$98,473, or 2 percent. The decrease is the result of depreciation expense exceeding capital asset additions. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2008, the School District had outstanding general obligation bonds, in the amount of \$619,429, issued for constructing a building addition. The bonds were issued for a fifteen year period, with final maturity in fiscal year 2015. The School District's long-term obligations also included compensated absences. For further information regarding the School District's long-term obligations, refer to Note 15 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 School District throughout its many endeavors. A high percentage of the students participate in athletics, musicals, and other programs.

The School District is beginning the third year of a three-year strategic plan involving community members, students, staff, and administration. As a result of that plan, teachers are involved in cutting edge professional development that is job-embedded and occurs on a daily basis.

The School District is beginning the first year of a three-year negotiated agreement. Base salary increases of 2.9 percent were given for all three years.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

The School District is currently hosting public meetings in regard to the current and future school facilities. This process began when voters rejected a second OSFC levy attempt in August 2008. The Board of Education will be discussing a future vision for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Angie Spridgeon, Treasurer, Arlington Local School District, 336 South Main Street, Arlington, Ohio 45814.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Net Assets
June 30, 2008**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,637,712
Accounts Receivable	4,972
Accrued Interest Receivable	2,279
Intergovernmental Receivable	8,661
Prepaid Items	24,161
Inventory Held for Resale	12,408
Materials and Supplies Inventory	16,857
Income Taxes Receivable	377,743
Property Taxes Receivable	1,348,644
Nondepreciable Capital Assets	309,090
Depreciable Capital Assets, Net	3,831,631
Total Assets	<u>9,574,158</u>
 <u>Liabilities:</u>	
Accounts Payable	7,598
Accrued Wages and Benefits Payable	478,675
Matured Compensated Absences Payable	13,489
Intergovernmental Payable	159,593
Deferred Revenue	1,220,356
Accrued Interest Payable	14,242
Long-Term Liabilities:	
Due Within One Year	62,538
Due in More Than One Year	1,076,272
Total Liabilities	<u>3,032,763</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	3,658,758
Restricted For:	
Set Asides	226,702
Debt Service	66,515
Other Purposes	158,772
Unrestricted	2,430,648
Total Net Assets	<u><u>\$6,541,395</u></u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2008**

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,871,975	\$168,419	\$82,084	\$2,534	(\$2,618,938)
Special	622,235		315,385		(306,850)
Vocational	259,130	290	38,105		(220,735)
Support Services:					
Pupils	296,155		143,507		(152,648)
Instructional Staff	353,517				(353,517)
Board of Education	36,007				(36,007)
Administration	467,620				(467,620)
Fiscal	204,266				(204,266)
Operation and Maintenance of Plant	493,127				(493,127)
Pupil Transportation	219,986			2,450	(217,536)
Central	1,703				(1,703)
Non-Instructional Services	251,613	196,718	83,655		28,760
Extracurricular Activities	281,622	95,932	7,760		(177,930)
Interest and Fiscal Charges	36,272				(36,272)
Total Governmental Activities	<u>\$6,395,228</u>	<u>\$461,359</u>	<u>\$670,496</u>	<u>\$4,984</u>	<u>(5,258,389)</u>
<u>General Revenues:</u>					
					1,207,674
					120,767
					926,125
					2,903,409
					156,215
					17,688
					27,082
					<u>5,358,960</u>
					100,571
					6,440,824
					<u>\$6,541,395</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2008**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,147,371	\$250,224	\$3,397,595
Accounts Receivable	4,912	60	4,972
Accrued Interest Receivable	2,279		2,279
Intergovernmental Receivable		8,661	8,661
Prepaid Items	24,161		24,161
Inventory Held for Resale		12,408	12,408
Materials and Supplies Inventory	15,945	912	16,857
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	240,117		240,117
Income Taxes Receivable	377,743		377,743
Property Taxes Receivable	1,229,565	119,079	1,348,644
Total Assets	\$5,042,093	\$391,344	\$5,433,437
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$7,359	\$239	\$7,598
Accrued Wages and Benefits Payable	451,636	27,039	478,675
Matured Compensated Absences Payable	13,489		13,489
Intergovernmental Payable	145,935	13,658	159,593
Deferred Revenue	1,242,276	115,115	1,357,391
Total Liabilities	1,860,695	156,051	2,016,746
<u>Fund Balances:</u>			
Reserved for Property Taxes	49,000	5,000	54,000
Reserved for Capital Improvements	226,702		226,702
Reserved for Bus Purchase	13,415		13,415
Reserved for Encumbrances	87,451	4,500	91,951
<u>Unreserved, Reported in:</u>			
General Fund	2,804,830		2,804,830
Special Revenue Funds		156,231	156,231
Debt Service Fund		69,562	69,562
Total Fund Balances	3,181,398	235,293	3,416,691
Total Liabilities and Fund Balances	\$5,042,093	\$391,344	\$5,433,437

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2008**

Total Governmental Fund Balances	\$3,416,691
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,140,721
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$4,431	
Intergovernmental Receivable	989	
Income Taxes Receivable	57,327	
Property Taxes Receivable	74,288	
	<u>137,035</u>	137,035

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

Accrued Interest Payable	(14,242)	
General Obligation Bonds Payable	(619,429)	
Compensated Absences Payable	(519,381)	
	<u>(1,153,052)</u>	(1,153,052)

Net Assets of Governmental Activities	<u><u>\$6,541,395</u></u>
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See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008**

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$1,167,237	\$117,286	\$1,284,523
Income Taxes	943,142		943,142
Intergovernmental	3,183,512	390,029	3,573,541
Interest	155,212	6,321	161,533
Tuition and Fees	167,758		167,758
Extracurricular Activities	1,639	94,466	96,105
Charges for Services		196,718	196,718
Gifts and Donations	14,217	7,197	21,414
Miscellaneous	9,211	17,956	27,167
Total Revenues	<u>5,641,928</u>	<u>829,973</u>	<u>6,471,901</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	2,726,447	112,978	2,839,425
Special	580,018	44,823	624,841
Vocational	258,251		258,251
Support Services:			
Pupils	149,387	143,147	292,534
Instructional Staff	327,805	13,740	341,545
Board of Education	36,007		36,007
Administration	465,135		465,135
Fiscal	204,429	2,364	206,793
Operation and Maintenance of Plant	452,031		452,031
Pupil Transportation	201,156		201,156
Central	1,703		1,703
Non-Instructional Services		253,257	253,257
Extracurricular Activities	167,762	95,853	263,615
Capital Outlay	7,231		7,231
Debt Service:			
Principal Retirement		37,247	37,247
Interest on Capital Appreciation Bonds		72,753	72,753
Interest and Fiscal Charges		23,067	23,067
Total Expenditures	<u>5,577,362</u>	<u>799,229</u>	<u>6,376,591</u>
Changes in Fund Balances	64,566	30,744	95,310
Fund Balances at Beginning of Year	3,116,832	204,549	3,321,381
Fund Balances at End of Year	<u>\$3,181,398</u>	<u>\$235,293</u>	<u>\$3,416,691</u>

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2008**

Changes in Fund Balances - Total Governmental Funds \$95,310

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	\$46,347	
Capital Contributions	2,534	
Depreciation	<u>(144,146)</u>	(95,265)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (3,208)

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

Property Taxes	43,918	
Income Taxes	(17,017)	
Intergovernmental	(6,230)	
Tuition and Fees	951	
Extracurricular Activities	(173)	
Miscellaneous	<u>(85)</u>	21,364

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

Payment on Principal of Capital Appreciation Bonds	37,247	
Payment on Accretion of Capital Appreciation Bonds	<u>72,753</u>	110,000

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

Accrued Interest Payable	(194)	
Annual Accretion	<u>(13,011)</u>	(13,205)

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.

(14,425)

Change in Net Assets of Governmental Activities \$100,571

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$1,100,179	\$1,163,238	\$1,169,901	\$6,663
Income Taxes	811,255	919,533	919,533	
Intergovernmental	3,022,315	3,187,689	3,178,711	(8,978)
Interest	188,000	188,000	155,244	(32,756)
Tuition and Fees	158,799	158,799	167,788	8,989
Extracurricular Activities	3,600	3,600	1,639	(1,961)
Gifts and Donations	16,250	16,250	14,217	(2,033)
Miscellaneous	4,250	4,250	2,708	(1,542)
Total Revenues	5,304,648	5,641,359	5,609,741	(31,618)
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,677,060	2,830,063	2,746,228	83,835
Special	454,093	609,658	578,773	30,885
Vocational	231,317	265,317	260,813	4,504
Support Services:				
Pupils	154,606	154,606	149,527	5,079
Instructional Staff	332,142	347,402	322,218	25,184
Board of Education	42,569	44,955	44,093	862
Administration	477,292	491,493	467,600	23,893
Fiscal	197,598	205,908	204,540	1,368
Operation and Maintenance of Plant	604,301	609,301	493,066	116,235
Pupil Transportation	248,351	250,351	215,442	34,909
Central	1,732	2,732	1,906	826
Extracurricular Activities	165,459	174,620	168,193	6,427
Capital Outlay	28,203	28,203	7,359	20,844
Total Expenditures	5,614,723	6,014,609	5,659,758	354,851
Excess of Revenues				
Under Expenditures	(310,075)	(373,250)	(50,017)	323,233
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	10,000	10,000	6,058	(3,942)
Advances Out	(10,000)	(10,000)		10,000
Total Other Financing Sources (Uses)			6,058	6,058
Changes in Fund Balance	(310,075)	(373,250)	(43,959)	329,291
Fund Balance at Beginning of Year	3,250,371	3,250,371	3,250,371	
Prior Year Encumbrances Appropriated	89,341	89,341	89,341	
Fund Balance at End of Year	\$3,029,637	\$2,966,462	\$3,295,753	\$329,291

See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008**

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$23,826</u></u>
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Liabilities:

Due to Students	<u><u>\$23,826</u></u>
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See Accompanying Notes to the Basic Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1923 through the consolidation of existing land areas and school districts. The School 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 School District is the 575th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by thirty-one classified employees, forty-six certified teaching personnel, and three administrative employees who provide services to six hundred fifty-one students and other community members. The School 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 insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Arlington Local School District, this includes general operations, food service, and student related activities of the School District.

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

The School District participates in four jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Cooperative Vocational Career Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Hancock County Schools Insurance Consortium Group Health Plan, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 17 and 18 to the basic financial statements.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

B. Fund Accounting

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

Governmental Funds

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2008. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School 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 School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

Property taxes for which there was an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

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 function level for the General Fund and the fund level in all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the object level in the General Fund and at the function and object level within all other funds are made by the School District Treasurer.

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

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

F. Cash and Investments

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

During fiscal year 2008, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2008.

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 2008 was \$155,212, which includes \$3,957 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, 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 or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the acquisition or construction of capital improvements as well as unexpended revenues restricted for the purchase of school buses.

J. Capital Assets

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

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

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

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

M. Net Assets

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2008, there were no net assets restricted by enabling legislation.

N. Fund Balance Reserves

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

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

O. Interfund Transactions

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

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

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

P. Estimates

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this statement for both the State Teachers Retirement System and the School Employees Retirement System postemployment healthcare plans, in the amount of \$18,251 and \$4,123, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

NOTE 4 - ACCOUNTABILITY

At June 30, 2008, the EMIS and Title I special revenue funds had deficit fund balances, in the amount of \$17, and \$455, 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 School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of 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	\$64,566
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2007, Received in Cash FY 2008	346,094
Accrued FY 2008, Not Yet Received in Cash	(372,223)
Expenditure Accruals:	
Accrued FY 2007, Paid in Cash FY 2008	(609,840)
Accrued FY 2008, Not Yet Paid in Cash	618,419
Prepaid Items	445
Materials and Supplies Inventory	315
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(91,735)
Budget Basis	(\$43,959)

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. 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 School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end \$158,045 of the School District's bank balance of \$261,130 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Investments

As of June 30, 2008, the fair value of funds on deposit with STAR Ohio was \$3,474,571. The School District's investments in STAR Ohio have an average maturity of 53.8 days. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy for interest rate or credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except property taxes and income taxes, are expected to be collected within one year. Property taxes and income 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:

	<u>Amount</u>
Governmental Activities	
Other Governmental Funds	
Title I	\$5,700
Title II-A	2,961
Total Other Governmental Funds	<u><u>\$8,661</u></u>

NOTE 8 - INCOME TAXES

The School 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 9 - PROPERTY TAXES

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2008 represent the collection of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed values as of January 1, 2007, 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 2008 represent the collection of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien on December 31, 2006, were levied after April 1, 2007, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

The School District receives property taxes from Hancock County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2008, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2008, was \$49,000 in the General Fund and \$5,000 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2007, was \$52,000 in the General Fund and \$6,000 in the Bond Retirement debt service fund.

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

The assessed values upon which fiscal year 2008 taxes were collected are:

	<u>2007 Second- Half Collections</u>		<u>2008 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$52,870,320	87.88%	\$57,627,860	88.48%
Industrial/Commercial	3,270,540	5.44	3,558,880	5.46
Public Utility	2,583,000	4.29	1,795,610	2.76
Tangible Personal	1,440,305	2.39	2,148,330	3.30
Total Assessed Value	<u>\$60,164,165</u>	<u>100.00%</u>	<u>\$65,130,680</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.66		\$33.40	

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance at 6/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/08</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$309,090			\$309,090
Depreciable Capital Assets				
Land Improvements	161,364			161,364
Buildings and Building Improvements	4,301,694	\$1,800		4,303,494
Furniture, Fixtures, and Equipment	892,887	47,081	(\$61,079)	878,889
Vehicles	408,828			408,828
Infrastructure	11,856			11,856
Total Depreciable Capital Assets	<u>5,776,629</u>	<u>48,881</u>	<u>(61,079)</u>	<u>5,764,431</u>

(continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

	<u>Balance at 6/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/08</u>
Less Accumulated Depreciation				
Land Improvements	(\$60,451)	(\$4,698)		(\$65,149)
Buildings and Building Improvements	(961,185)	(64,313)		(1,025,498)
Furniture, Fixtures, and Equipment	(531,106)	(48,092)	\$57,871	(521,327)
Vehicles	(292,341)	(26,806)		(319,147)
Infrastructure	(1,442)	(237)		(1,679)
Total Accumulated Depreciation	<u>(1,846,525)</u>	<u>(144,146)</u>	<u>57,871</u>	<u>(1,932,800)</u>
Depreciable Capital Assets, Net	<u>3,930,104</u>	<u>(95,265)</u>	<u>(3,208)</u>	<u>3,831,631</u>
Governmental Activities				
Capital Assets, Net	<u>\$4,239,194</u>	<u>(\$95,265)</u>	<u>(\$3,208)</u>	<u>\$4,140,721</u>

The School District accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$2,534 during fiscal year 2008.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$40,050
Special	3,031
Vocational	2,159
Support Services:	
Pupils	1,629
Instructional Staff	1,563
Administration	1,051
Fiscal	574
Operation and Maintenance of Plant	39,316
Pupil Transportation	27,167
Non-Instructional Services	5,153
Extracurricular Activities	22,453
Total Depreciation Expense	<u>\$144,146</u>

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District contracted for the following insurance coverage.

Coverage provided by Cincinnati Insurance Company is as follows:

Building and Contents	\$7,755,123
General School District Liability	1,000,000
Umbrella Liability	6,000,000

Coverage provided by Auto Owners Mutual Insurance is as follows:

Automobile Liability	1,000,000
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.

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., review each participants' claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Plan Description - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to 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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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 - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, was \$341,628, \$325,552, and \$326,153 respectively; 84 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DCP and CP for fiscal year 2008 were \$981 made by the School District and \$935 made by the plan members.

B. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, was \$71,743, \$81,376, and \$76,688 respectively; 44 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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, 2008, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - The School District contributes to 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. 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 may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care 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 pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2008, 2007, and 2006, was \$26,351, \$25,043, and \$25,121 respectively; 84 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

B. School Employees Retirement System

Plan Description - The School District contributes to two cost-sharing multiple-employer defined 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, 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 obligations 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 is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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 401h. For fiscal year 2008, 4.18 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 2008, this amount was \$48,403.

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 School District's contribution for health care for the fiscal years ended June 30, 2008, 2007, and 2006, was \$32,739, \$25,297, and \$24,789 respectively; 44 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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 2008, this actuarially required allocation was .66 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, was \$5,169, \$5,181, and \$5,654 respectively; 44 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 14 - 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 days for all school personnel. Upon retirement, payment is made for 27 percent of their accrued but unused sick leave credit to a maximum of fifty-four days.

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Insurance Consortium Group Health Plan. The School District offers life insurance to all employees through Fort Dearborn Life Insurance 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 15 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2008 were as follows:

	<u>Balance at 6/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/08</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
FY00 Refunding School Improvement Bonds					
Term Bonds 5.1%	\$425,000			\$425,000	
Capital Appreciation Bonds 5.05- 5.1%	94,210		\$37,247	56,963	\$31,083
Accretion of Capital Appreciation Bonds	<u>197,208</u>	<u>\$13,011</u>	<u>72,753</u>	<u>137,466</u>	
Total General Obligation Bonds	716,418	13,011	110,000	619,429	31,083
Compensated Absences Payable	<u>504,956</u>	<u>45,088</u>	<u>30,663</u>	<u>519,381</u>	<u>31,455</u>
Total Governmental Activities Long -Term Obligations	<u>\$1,221,374</u>	<u>\$58,099</u>	<u>\$140,663</u>	<u>\$1,138,810</u>	<u>\$62,538</u>

FY 2000 Refunding School Improvement Bonds - On November 1, 1999, the School 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 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 bonds are fully retired.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 15 - LONG-TERM OBLIGATIONS – (CONTINUED)

The term bonds maturing on December 1, 2012, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2010 and 2011 (with the balance of \$85,000 to be paid at stated maturity on December 1, 2012), 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:

<u>Year</u>	<u>Amount</u>
2010	\$90,000
2011	85,000

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 School District. The mandatory redemption is to occur on December 1 in the year 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:

<u>Year</u>	<u>Amount</u>
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 capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2007 through 2009. The maturity amount of the bonds is \$315,000. For fiscal year 2008, \$13,011 was accreted and \$110,000 was paid on the capital appreciation bonds for a total outstanding bond value of \$194,429 at fiscal year end.

The refunded bonds have been fully retired.

Compensated absences will be paid from the General Fund and the Food Service and Title I special revenue funds.

The School District's overall debt margin was \$5,341,152 with an unvoted debt margin of \$64,701 at June 30, 2008.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 15 - LONG-TERM OBLIGATIONS – (CONTINUED)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2008, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			
	Term	Capital Appreciation	Interest	Total
2009		\$31,083	\$96,984	\$128,067
2010		25,880	97,187	123,067
2011	\$90,000		20,660	110,660
2012	85,000		15,978	100,978
2013	85,000		11,431	96,431
2014-2015	165,000		9,019	174,019
	<u>\$425,000</u>	<u>\$56,963</u>	<u>\$251,259</u>	<u>\$733,222</u>

NOTE 16 - SET ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2008.

	Textbooks	Capital Improvements
Balance June 30, 2007	(\$61,185)	\$166,611
Current Year Set Aside Requirement	97,854	97,854
Qualifying Expenditures	(67,022)	(37,763)
Balance June 30, 2008	<u> </u>	<u>\$226,702</u>
Amount Carried Forward to Fiscal Year 2009	<u>(\$30,353)</u>	<u>\$226,702</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2008, the School District paid \$12,081 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Cooperative Vocational Career Center

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

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, 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., Box 456, Ashland, Ohio 44805.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

NOTE 18 - INSURANCE POOLS

A. Hancock County Schools Insurance Consortium Group Health Plan

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

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

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

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

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Mary Taylor, CPA

Auditor of State

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

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 the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arlington Local School District, Hancock County, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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

We noted a certain matter that we reported to the District's management in a separate letter dated January 8, 2009.

Compliance and Other Matters

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

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



Mary Taylor, CPA
Auditor of State

January 8, 2009



Mary Taylor, CPA
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 5, 2009