



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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 general-purpose financial statements of Arlington Local School District (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Arlington Local School District, as of June 30, 2002, and the results of its operations and the cash flows of its enterprise fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 3 to the financial statements the District changed its method of accounting for donated commodities during fiscal year 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

December 18, 2002

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**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,095,046	\$127,241	\$73,116	\$19,760
Cash and Cash Equivalents with Fiscal Agent		6,421		
Receivables:				
Property Taxes	1,127,965		149,461	
Income Taxes	302,731			
Accounts	2,821	409		
Intergovernmental	982	743		
Accrued Interest	1,676			
Prepaid Items	19,194	815		
Inventory Held for Resale				
Materials and Supplies Inventory	24,523			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	40,430			
Fixed Assets (net, where applicable, of accumulated depreciation)				
<u>Other Debits:</u>				
Amount Available in Debt Service				
Fund for Retirement of General Obligation Debt				
Amount to be Provided from General Governmental Resources				
Total Assets and Other Debits	\$4,615,368	\$135,629	\$222,577	\$19,760

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$18,942	\$20,866			\$3,354,971
				6,421
				1,277,426
				302,731
				3,230
				1,725
				1,676
245				20,254
9,903				9,903
1,091				25,614
				40,430
2,635		\$6,115,625		6,118,260
			\$82,867	82,867
			1,489,229	1,489,229
\$32,816	\$20,866	\$6,115,625	\$1,572,096	\$12,734,737

(Continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity, and Other Credits:				
<u>Liabilities:</u>				
Accounts Payable	\$12,878	\$1,178		
Contracts Payable	16,200			
Retainage Payable	1,800			
Accrued Wages and Benefits	353,744	7,790		
Compensated Absences Payable	7,768			
Intergovernmental Payable	82,420	1,121		
Deferred Revenue	1,062,212	232	\$139,710	
Due to Students				
General Obligation Bonds Payable				
Total Liabilities	1,537,022	10,321	139,710	
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved (Deficit)				
Contributed Capital				
Fund Balance:				
Reserved for Property Taxes	67,249		9,751	
Reserved for Textbooks	40,430			
Reserved for Encumbrances	115,492	33,618		\$17,133
Unreserved	2,855,175	91,690	73,116	2,627
Total Fund Equity (Deficit) and Other Credits	3,078,346	125,308	82,867	19,760
Total Liabilities, Fund Equity and Other Credits	\$4,615,368	\$135,629	\$222,577	\$19,760

See Accompanying Notes to the General-Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
				\$14,056
				16,200
				1,800
\$17,931				379,465
12,323			\$321,686	341,777
11,664			32,094	127,299
				1,202,154
	\$20,866			20,866
			1,218,316	1,218,316
41,918	20,866		1,572,096	3,321,933
		\$6,115,625		6,115,625
(20,822)				(20,822)
11,720				11,720
				77,000
				40,430
				166,243
				3,022,608
(9,102)		6,115,625		9,412,804
\$32,816	\$20,866	\$6,115,625	\$1,572,096	\$12,734,737

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Property Taxes	\$1,175,377	
Income Taxes	750,483	
Intergovernmental	2,549,409	\$151,371
Interest	92,510	2,838
Tuition and Fees	40,873	
Extracurricular Activities	3,036	106,896
Gifts and Donations	11,980	17,119
Miscellaneous	6,365	3,230
	4,630,033	281,454
Expenditures:		
Current:		
Instruction:		
Regular	2,028,669	136,950
Special	372,249	64,466
Vocational	191,492	
Support Services:		
Pupils	92,754	22,286
Instructional Staff	243,832	17,480
Board of Education	23,282	
Administration	375,438	7,598
Fiscal	154,988	
Operation and Maintenance of Plant	451,533	
Pupil Transportation	191,893	
Central	971	
Extracurricular Activities	134,275	70,767
Capital Outlay	97,081	
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
	4,358,457	319,547
Excess of Revenues Over (Under) Expenditures	271,576	(38,093)
Other Financing Sources:		
Sale of Fixed Assets	200	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	271,776	(38,093)
Fund Balances at Beginning of Year	2,806,570	163,401
Fund Balances at End of Year	\$3,078,346	\$125,308

See Accompanying Notes to the General-Purpose Financial Statements

Governmental Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$155,294		\$1,330,671
		750,483
19,444	\$19,760	2,739,984
		95,348
		40,873
		109,932
		29,099
		9,595
<hr/>	<hr/>	<hr/>
174,738	19,760	5,105,985
	91	2,165,710
		436,715
		191,492
		115,040
		261,312
		23,282
		383,036
2,897		157,885
		451,533
		191,893
		971
		205,042
	13,454	110,535
120,000		120,000
53,652		53,652
<hr/>	<hr/>	<hr/>
176,549	13,545	4,868,098
(1,811)	6,215	237,887
		200
(1,811)	6,215	238,087
84,678	13,545	3,068,194
<hr/>	<hr/>	<hr/>
\$82,867	\$19,760	\$3,306,281

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property Taxes	\$1,182,639	\$1,183,808	\$1,169
Income Taxes	764,192	746,659	(17,533)
Intergovernmental	2,535,813	2,549,409	13,596
Interest	127,500	93,552	(33,948)
Tuition and Fees	53,980	40,873	(13,107)
Extracurricular Activities	5,000	3,036	(1,964)
Gifts and Donations	14,550	11,980	(2,570)
Miscellaneous	1,200	3,090	1,890
Total Revenues	4,684,874	4,632,407	(52,467)
Expenditures:			
Current:			
Instruction:			
Regular	2,081,727	2,038,184	43,543
Special	385,137	374,408	10,729
Vocational	246,591	198,552	48,039
Adult/Continuing	512		512
Support Services:			
Pupils	93,025	88,584	4,441
Instructional Staff	264,988	245,715	19,273
Board of Education	45,585	31,676	13,909
Administration	386,421	375,112	11,309
Fiscal	171,170	168,615	2,555
Operation and Maintenance of Plant	538,968	492,384	46,584
Pupil Transportation	229,271	199,144	30,127
Central	1,300	971	329
Extracurricular Activities	135,975	134,522	1,453
Capital Outlay	152,022	140,733	11,289
Dent Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	4,732,692	4,488,600	244,092
Excess of Revenues Over (Under) Expenditures	(47,818)	143,807	191,625
Other Financing Sources:			
Sale of Fixed Assets	1,000	200	(800)
Refund of Prior Year Expenditures	8,585	4,739	(3,846)
Other Financing Sources		100	100
Total Other Financing Sources	9,585	5,039	(4,546)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(38,233)	148,846	187,079
Fund Balances at Beginning of Year	2,702,506	2,702,506	
Prior Year Encumbrances Appropriated	98,914	98,914	
Fund Balances at End of Year	\$2,763,187	\$2,950,266	\$187,079

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$154,490	\$155,863	\$1,373
\$104,566	\$103,498	(\$1,068)	18,982	19,444	462
4,175	2,838	(1,337)			
87,145	103,693	16,548			
17,300	17,119	(181)			
<u>213,186</u>	<u>227,148</u>	<u>13,962</u>	<u>173,472</u>	<u>175,307</u>	<u>1,835</u>
166,353	141,716	24,637			
59,620	58,445	1,175			
5,734	4,927	807			
1	1				
			3,500	2,897	603
115,060	100,734	14,326			
			120,000	120,000	
			53,652	53,652	
<u>346,768</u>	<u>305,823</u>	<u>40,945</u>	<u>177,152</u>	<u>176,549</u>	<u>603</u>
<u>(133,582)</u>	<u>(78,675)</u>	<u>54,907</u>	<u>(3,680)</u>	<u>(1,242)</u>	<u>2,438</u>
	3,394	3,394			
3,265	3,255	(10)			
<u>3,265</u>	<u>6,649</u>	<u>3,384</u>			
(130,317)	(72,026)	58,291	(3,680)	(1,242)	2,438
140,334	140,334		74,358	74,358	
24,137	24,137				
<u>\$34,154</u>	<u>\$92,445</u>	<u>\$58,291</u>	<u>\$70,678</u>	<u>\$73,116</u>	<u>\$2,438</u>

(Continued)

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)**

	<u>Capital Projects Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property Taxes			
Income Taxes			
Intergovernmental	\$19,760	\$19,760	
Interest			
Tuition and Fees			
Extracurricular Activities			
Gifts and Donations			
Miscellaneous			
Total Revenues	<u>19,760</u>	<u>19,760</u>	
Expenditures:			
Current:			
Instruction:			
Regular	31,632	29,005	\$2,627
Special			
Vocational			
Adult/Continuing			
Support Services:			
Pupils			
Instructional Staff	4,036	4,036	
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Extracurricular Activities			
Capital Outlay			
Dent Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	<u>35,668</u>	<u>33,041</u>	<u>2,627</u>
Excess of Revenues Over (Under) Expenditures	<u>(15,908)</u>	<u>(13,281)</u>	<u>2,627</u>
Other Financing Sources:			
Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Other Financing Sources			
Total Other Financing Sources			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(15,908)	(13,281)	2,627
Fund Balances at Beginning of Year	13,545	13,545	
Prior Year Encumbrances Appropriated	2,363	2,363	
Fund Balances at End of Year	<u><u>\$2,627</u></u>	<u><u>\$2,627</u></u>	

See Accompanying Notes to the General-Purpose Financial Statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,337,129	\$1,339,671	\$2,542
764,192	746,659	(17,533)
2,679,121	2,692,111	12,990
131,675	96,390	(35,285)
53,980	40,873	(13,107)
92,145	106,729	14,584
31,850	29,099	(2,751)
1,200	3,090	1,890
5,091,292	5,054,622	(36,670)
2,279,712	2,208,905	70,807
444,757	432,853	11,904
246,591	198,552	48,039
512		512
93,025	88,584	4,441
274,758	254,678	20,080
45,585	31,676	13,909
386,422	375,113	11,309
174,670	171,512	3,158
538,968	492,384	46,584
229,271	199,144	30,127
1,300	971	329
251,035	235,256	15,779
152,022	140,733	11,289
120,000	120,000	
53,652	53,652	
5,292,280	5,004,013	288,267
(200,988)	50,609	251,597
1,000	200	(800)
8,585	8,133	(452)
3,265	3,355	90
12,850	11,688	(1,162)
(188,138)	62,297	250,435
2,930,743	2,930,743	
125,414	125,414	
\$2,868,019	\$3,118,454	\$250,435

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Equity
Enterprise Fund
For the Fiscal Year Ended June 30, 2002**

Operating Revenues:	
Sales	\$163,559
	<hr/>
Operating Expenses:	
Salaries	92,113
Fringe Benefits	32,495
Purchased Services	2,507
Materials and Supplies	2,990
Cost of Sales	84,793
Depreciation	825
	<hr/>
Total Operating Expenses	215,723
	<hr/>
Operating Loss	(52,164)
	<hr/>
Non-Operating Revenues:	
Federal Donated Commodities	19,223
Operating Grants	27,812
Interest	365
	<hr/>
Total Non-Operating Revenues	47,400
	<hr/>
Net Loss	(4,764)
	<hr/>
Retained Earnings (Deficit) at Beginning of Year - Restated Note 3	(16,058)
	<hr/>
Retained Earnings (Deficit) at End of Year	(20,822)
	<hr/>
Contributed Capital at Beginning and End of Year	11,720
	<hr/>
Total Fund Equity (Deficit) at End of Year	<u><u>(\$9,102)</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
Enterprise Fund
For the Fiscal Year Ended June 30, 2002**

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$173,600	\$163,594	(\$10,006)
Operating Grants	25,200	31,008	5,808
Interest	1,200	365	(835)
Total Revenues	200,000	194,967	(5,033)
Expenses:			
Salaries	89,480	89,007	473
Fringe Benefits	34,431	33,929	502
Purchased Services	3,417	1,763	1,654
Materials and Supplies	83,500	70,036	13,464
Capital Outlay	3,500		3,500
Other Expenses	100		100
Total Expenses	214,428	194,735	19,693
Excess of Revenues Over (Under) Expenses	(14,428)	232	14,660
Fund Balance at Beginning of Year	15,315	15,315	
Prior Year Encumbrances Appropriated	17	17	
Fund Balance at End of Year	\$904	\$15,564	\$14,660

See Accompanying Notes to the General-Purpose Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$163,594
Cash Payments for Salaries	(89,007)
Cash Payments for Fringe Benefits	(30,551)
Cash Payments for Goods and Services	(71,799)
	(27,763)
Net Cash Used for Operating Activities	(27,763)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	31,008
	31,008

Cash Flows from Investing Activities:

Cash Received from Interest	365
	365

Net Increase in Cash and Cash Equivalents	3,610
Cash and Cash Equivalents at Beginning of Year	15,332
	18,942

Cash and Cash Equivalents at End of Year **\$18,942**

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss	(\$52,164)
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Adjustments to Reconcile Operating Loss to

Net Cash Used for Operating Activities:

Depreciation	825
Donated Commodities Received During Year	19,223
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	35
Decrease in Prepaid Items	2,270
Increase in Inventory Held for Resale	(1,568)
Decrease in Materials and Supplies Inventory	91
Decrease in Accounts Payable	(12)
Increase in Accrued Wages and Benefits	2,270
Increase in Compensated Absences Payable	1,351
Decrease in Intergovernmental Payable	(84)
	(84)

Net Cash Used for Operating Activities **(\$27,763)**

Non-Cash Transactions

During fiscal year 2002, the School District received donated commodities in the Food Service enterprise fund, in the amount of \$19,223.

See Accompanying Notes to the General-Purpose Financial Statements

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002**

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 565th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by thirty-four classified employees, forty-six certified teaching personnel, and three administrative employees who provide services to six hundred sixty-four 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 Health Benefit Fund and Trust, and NOACSC Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 17 and 18 to the combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 the enterprise fund provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund - The General Fund is the operating fund of the School District and 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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund - The enterprise fund is used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is

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For the Fiscal Year Ended June 30, 2002
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appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, except those accounted for in proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District, except those accounted for in proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The operating statement of this fund presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types and agency funds. The full accrual basis of accounting is followed for the enterprise fund.

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.

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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, and student fees.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the function level in the General Fund and the fund level for 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 the function and object level within all other funds are made by the School District Treasurer.

The Eisenhower, Title VI-B, Drug Free, and Early Childhood Preschool special revenue funds are flow through grants in which the Hancock County Educational Service Center is the primary recipient. Budgetary information for these funds is not included within the School District's reporting entity for which the "appropriated budget" is adopted.

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Tax Budget

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

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

Estimated Resources

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

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds and funds held by the Hancock County Educational Service Center, consistent with statutory provisions.

Encumbrances

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

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For the Fiscal Year Ended June 30, 2002
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expenditures for governmental fund types and reported in the notes to the financial statements for the enterprise fund.

Lapsing of Appropriations

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

D. 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Cash and cash equivalents held for the School District by the Hancock County Educational Service Center are included on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2002, 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, 2002.

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 2002 was \$92,510, which included \$3,829 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventory is stated at the lower of cost or market on a first-in, first-out basis and is expensed when used. Inventory consists of administrative supplies and donated and purchased food.

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(Continued)**

G. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not have any infrastructure.

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. Improvements are capitalized. Improvements to enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of five to twenty-five years.

I. 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 that 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 with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with

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current available expendable resources. Payments made more than sixty days after fiscal year end are not considered to have been paid using current available expendable resources. Bonds are reported as a liability in the general long-term obligations account group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the fund.

K. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise fund prior to fiscal year 2001 that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year end.

Capital contributions received from other governments and private sources subsequent to fiscal year 2000 are recorded as revenues and reported as retained earnings.

L. Fund Balance Reserves

The School District reserves those portions of fund equity 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 of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, textbooks, 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.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. 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.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2002, the School District is recognizing donated commodities as revenue when they are received. In prior years, the School District reported donated commodities as revenue when used. For the enterprise fund, retained earnings increased \$5,415 from (\$21,473) to (\$16,058).

NOTE 4 - ACCOUNTABILITY

The Educational Management Information System, Summer Intervention, Title I, and Title VI special revenue funds had deficit fund balances of \$1,234, \$80, \$4,234, and \$12, respectively, at June 30, 2002. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Food Service enterprise fund had deficit retained earnings of \$20,822 at June 30, 2002, as a result of accumulated operating losses from prior years.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. Although not part of the appropriated budget, the Eisenhower, Title VI-B, Drug Free, and Early Childhood Preschool special revenue funds are included as part of the reporting entity when preparing financial statements that conform with GAAP.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

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**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

Excess of Revenues and Other Financing Sources Over (Under) Expenditures All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$271,776	(\$38,093)	(\$1,811)	\$6,215
<u>Increase (Decrease) Due To:</u>				
Revenue Accruals:				
Accrued FY 2001, Received in Cash FY 2002	381,176	393	10,320	
Accrued FY 2002, Not Yet Received in Cash	(373,963)	(920)	(9,751)	
Expenditure Accruals:				
Accrued FY 2001, Paid in Cash FY 2002	(436,228)	(8,962)		(2,363)
Accrued FY 2002, Not Yet Paid in Cash	474,810	10,089		
Cash Adjustments:				
Unrecorded Activity FY 2002	(23,661)			
Prepaid Items	15,578	786		
Materials and Supplies Inventory	907			
Excess of Revenues Over Expenditures for Nonbudgeted Funds		(523)		
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(161,549)	(34,796)		(17,133)
Budget Basis	\$148,846	(\$72,026)	(\$1,242)	(\$13,281)

Net Loss/Excess of Revenues Over Expenses Enterprise Fund	
GAAP Basis	(\$4,764)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2001, Received in Cash FY 2002	3,231
Expense Accruals:	
Accrued FY 2001, Paid in Cash FY 2002	(38,393)
Accrued FY 2002, Not Yet Paid in Cash	41,918
Cash Adjustments:	
Unrecorded Activity FY 2002	(3,378)
Prepaid Items	2,270
Inventory Held for Resale	(1,568)
Materials and Supplies Inventory	91
Depreciation Expense	825
Budget Basis	\$232

**ARLINGTON LOCAL SCHOOL DISTRICT
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(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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.

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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**Notes to the General-Purpose Financial Statements
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(Continued)**

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

At fiscal year end, the School District had \$6,421 in cash and cash equivalents held by the Hancock Educational Service Center, which are included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

At fiscal year end, the carrying amount of the School District's deposits was \$717,516 and the bank balance was \$889,620. Of the bank balance, \$200,000 was covered by federal depository insurance and \$689,620 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$2,677,885.

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,401,822	
Cash and Cash Equivalents with Educational Service Center	(6,421)	
Investments:		
STAR Ohio	(2,677,885)	\$2,677,885
GASB Statement No. 3	\$717,516	\$2,677,885

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(Continued)**

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2002 represent the collection of calendar year 2001 taxes. Real property taxes received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of January 1, 2001, the lien date. Assessed values for real property taxes are established by State law 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 real and tangible personal property taxes received in calendar year 2002 were levied after April 1, 2001, on the assessed values as of December 31, 2000, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2002 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes received in calendar year 2002 were levied after April 1, 2001, on the value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value. 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, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2002, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at year end. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$67,249 in the General Fund and \$9,751 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2001, was \$75,680 in the General Fund and \$10,320 in the Bond Retirement debt service fund.

The assessed values upon which the fiscal year 2002 taxes were collected are:

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	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$44,216,470	82.21%	\$48,205,310	83.37%
Industrial/Commercial	3,067,840	5.71%	3,236,790	5.60%
Public Utility	3,135,830	5.83%	2,758,630	4.77%
Tangible Personal	3,362,324	6.25%	3,618,586	6.26%
Total Assessed Value	<u>\$53,782,464</u>	<u>100.00%</u>	<u>\$57,819,316</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$38.89</u>		<u>\$34.30</u>	

The School District had a 4.19 mill emergency levy expire during the fiscal year.

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 - RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees and billings for user charged services), intergovernmental, and accrued interest. 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. Student fees are also considered collectible in full due to the withholding of diplomas and grade cards. Accounts receivable at June 30 were \$3,230.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
E-Rate	\$497
Hancock County Educational Service Center	435
Hancock County	<u>50</u>
Total General Fund	982
Special Revenue Fund:	
Title I	<u>743</u>
Total	<u>\$1,725</u>

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 10 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$34,279
Less Accumulated Depreciation	<u>31,644</u>
Net Fixed Assets	<u><u>\$2,635</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$337,271	\$81,416		\$418,687
Buildings	4,148,456	57,995		4,206,451
Furniture, Fixtures, and Equipment	917,990	149,593	\$13,356	1,054,227
Vehicles	<u>418,007</u>	<u>53,253</u>	<u>35,000</u>	<u>436,260</u>
Total General Fixed Assets	<u><u>\$5,821,724</u></u>	<u><u>\$342,257</u></u>	<u><u>\$48,356</u></u>	<u><u>\$6,115,625</u></u>

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 2002, the School District contracted for the following insurance coverage:

Coverage provided by Cincinnati Insurance Co. is as follows:

Total Policy Coverage - includes the following:	\$8,389,350
Buildings and Contents - replacement cost (\$500 deductible)	
Inland Marine Coverage (\$500 deductible)	
Boiler and Machinery (\$500 deductible for fire and explosion and mechanical)	
General School District Liability	
Per Occurrence	1,000,000
Total per Year	6,000,000
Umbrella Liability Insurance	6,000,000

Coverage provided by Auto Owners Mutual Insurance is as follows:

Automobile Liability	\$1,000,000
Uninsured Motorists	1,000,000
Medical Payments - per person	5,000

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.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

The School District participates in the Hancock County Schools Health Benefit Fund and Trust (Trust), 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 Trust for employee medical, dental, vision, and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2002, the School District participated in the NOACSC Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended 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 workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$195,529, \$182,371, and \$106,277, respectively; 84 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$31,472, is recorded as a liability within the respective funds.

B. School Employees Retirement System

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$33,733, \$25,056, and \$34,012, respectively; 43 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2001, in the amount of \$19,319, is recorded as a liability within the respective funds and the general long-term obligations account group.

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, 2002, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$92,619.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$61,067 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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 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 one-fourth of their accrued, but unused sick leave credit to a maximum of fifty days.

B. Health Care Benefits

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

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
General Obligation Bonds:				
School Building Improvement Bonds FY 1992 6.6 - 6.7%	\$90,000		\$90,000	
Refunding School Building Improvement Bonds FY 2000 4.1 -5.5%	1,236,771	\$11,545	30,000	\$1,218,316
Total General Obligation Bonds	1,326,771	11,545	120,000	1,218,316
Other Long-Term Obligations:				
Compensated Absences Payable	336,935		15,249	321,686
Intergovernmental Payable	34,936	32,094	34,936	32,094
Total General Long-Term Obligations	<u>\$1,698,642</u>	<u>\$43,639</u>	<u>\$170,185</u>	<u>\$1,572,096</u>

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

FY 1992 School Building Improvement Bonds - On August 1, 1991, the School District issued \$1,990,000 in voted general obligation bonds for constructing a building addition to house the elementary school library, elementary classrooms, and a new gymnasium. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2015. The bonds were fully retired in fiscal year 2002 through the Bond Retirement debt service fund.

FY 2000 Refunding School Building 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 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:

Year	Amount
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:

Year	Amount
2013	\$85,000

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

The term bonds are also subject to prior redemption on or after December 1, 2009, by and at the sole option of the School District, either in whole on any date or in part on any interest payment date and in integral multiples of \$5,000, at par plus the following redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2009 through November 30, 2010	101%
December 1, 2010 and thereafter	100%

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 2002, \$11,545 was accreted on the capital appreciation bonds for a total outstanding bond value of the capital appreciation bonds of \$223,316 at fiscal year end.

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

Compensated absences and intergovernmental payables, representing the School District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$4,068,289 with an unvoted debt margin of \$57,819 at June 30, 2002.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2002, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			Interest	Total
	Serial	Term	Capital		
2003	\$115,000			\$47,346	\$162,346
2004	115,000			42,085	157,085
2005	115,000			36,709	151,709
2006	115,000			31,218	146,218
2007	110,000			25,763	135,763
2008-2012		\$175,000	\$315,000	105,839	595,839
2013-2015		250,000		20,450	270,450
Total	<u>\$570,000</u>	<u>\$425,000</u>	<u>\$315,000</u>	<u>\$309,410</u>	<u>\$1,619,410</u>

NOTE 16 - SET ASIDE REQUIREMENTS

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 to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2002.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2001	\$68,659	\$48,147	\$13,174
Current Year Set Aside Requirement	83,256	83,256	
Qualifying Expenditures	<u>(111,485)</u>	<u>(131,403)</u>	<u>(13,174)</u>
Balance June 30, 2002	<u>\$40,430</u>	<u></u>	<u></u>

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

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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 2002, the School District paid \$10,627 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Cooperative Vocational Career Center

The Millstream Cooperative Vocational Career Center (Career Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. During fiscal year 2002, the School District paid \$46,527 to the Career Center for various services. Financial information can be obtained from the Findlay City School District, Pam Barber, who serves as treasurer, 227 South West Street, Findlay, Ohio 45840-3377.

C. Hancock County Local Professional Development Committee

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

NOTE 18 - INSURANCE POOLS

A. Hancock County Schools Health Benefit Fund and Trust

The Hancock County Schools Health Benefit Fund and Trust (Trust) 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 Trust 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 participants. The Administrative Committee of the

**ARLINGTON LOCAL SCHOOL DISTRICT
HANCOCK COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

Trust consists of the superintendent from each participating member. The Administrative Committee advises the trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each member decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Tim Smith, Ohio Benefits Group, 545 Pearl Street, Bowling Green, Ohio 43402.

B. NOACSC 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 NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz of NOACSC, or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 20 - CONTINGENT LIABILITIES

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, 2002.

B. Litigation

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



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
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 Arlington Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 18, 2002, in which we disclosed the District changed its method of accounting for donated commodities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 18, 2002.

Arlington Local School District
Hancock County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 18, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
JANUARY 9, 2003**