



**Auditor of State
Betty Montgomery**

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Arcanum-Butler Local School District
Darke County
2 Weisenbarger Court
Arcanum, Ohio 45304

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Arcanum-Butler Local School District, Darke County, (the District) as of and for the years ended June 30, 2003 and 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 Arcanum-Butler Local School District, Darke County, as of June 30, 2003 and June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 November 20, 2003, 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.

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Betty Montgomery
Auditor of State

November 20, 2003

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**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,879,934	\$85,993	\$3,422
Cash and Cash Equivalents with Fiscal Agent Investments		3,204	
Property Taxes Receivable	1,767,762		
Income Taxes Receivable	253,672		
Accounts Receivable	2,249	662	
Intergovernmental Receivable	29,740	18,708	
Accrued Interest Receivable	951		
Prepaid Items	68,821		
Inventory Held for Resale			
Inventory of Supplies and Materials	1,219		
Restricted Asset: Equity in Pooled Cash and Cash Equivalents	94,197		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	<u>4,098,545</u>	<u>108,567</u>	<u>3,422</u>
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	\$48,917	\$10,342	
Accrued Wages and Benefits Payable	810,290	14,400	
Compensated Absences Payable	131,319		
Intergovernmental Payable	153,861	1,103	
Deferred Revenue	1,625,790	18,708	
Due to Students			
Notes Payable	148,577		
Special Termination Benefit Payable			
Total Liabilities	<u>2,918,754</u>	<u>44,553</u>	
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	74,114	13,380	1,200
Reserved for Inventory of Supplies and Materials	1,219		
Reserved for Property Taxes	164,917		
Reserved for Contributions			
Reserved for School Bus Purchases	24,238		
Reserved for Capital Improvements	69,959		
Designated for Textbooks/Instructional Materials	6,330		
Unreserved, Undesignated	839,014	50,634	2,222
Total Fund Equity and Other Credits	<u>1,179,791</u>	<u>64,014</u>	<u>3,422</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$4,098,545</u>	<u>\$108,567</u>	<u>\$3,422</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$146,100	\$36,754			\$2,152,203
	11,205			3,204
				11,205
				1,767,762
				253,672
5,726				8,637
				48,448
	64			1,015
2,708				71,529
3,546				3,546
810				2,029
				94,197
15,223		6,548,194		6,563,417
			446,376	446,376
<u>174,113</u>	<u>48,023</u>	<u>6,548,194</u>	<u>446,376</u>	<u>11,427,240</u>
12,618	2,500			74,377
21,666				846,356
6,411			354,244	491,974
16,726			52,132	223,822
				1,644,498
	16,346			16,346
				148,577
			40,000	40,000
<u>57,421</u>	<u>18,846</u>		<u>446,376</u>	<u>3,485,950</u>
		6,548,194		6,548,194
116,692				116,692
	3,568			92,262
				1,219
				164,917
	4,180			4,180
				24,238
				69,959
				6,330
	21,429			913,299
<u>116,692</u>	<u>29,177</u>	<u>6,548,194</u>		<u>7,941,290</u>
<u>\$174,113</u>	<u>\$48,023</u>	<u>\$6,548,194</u>	<u>\$446,376</u>	<u>\$11,427,240</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expensible Trust</u>	
Revenues:					
Property Taxes	\$1,710,338				\$1,710,338
Income Taxes	680,244				680,244
Tuition and Fees	306,935				306,935
Interest	38,456			\$201	38,657
Intergovernmental	4,368,180	\$246,267			4,614,447
Extracurricular Activities		147,985			147,985
Rent	5,450				5,450
Gifts and Donations	100	25,615		9,545	35,260
Miscellaneous	13,094				13,094
Total Revenues	<u>7,122,797</u>	<u>419,867</u>		<u>9,746</u>	<u>7,552,410</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,167,742	92,695			4,260,437
Special	609,170	92,599			701,769
Vocational	22,938				22,938
Support Services:					
Pupils	301,595	94,184			395,779
Instructional Staff	399,572	35,190	\$5,278	1,951	441,991
Board of Education	28,595				28,595
Administration	615,201				615,201
Fiscal	166,612				166,612
Operation and Maintenance of Plant	500,725				500,725
Pupil Transportation	335,127				335,127
Central	117	4,060			4,177
Operation of Non-Instructional Services	458	534		3,000	3,992
Extracurricular Activities	175,883	104,801			280,684
Capital Outlay	3,262				3,262
Debt Service:					
Principal Retirement	41,800				41,800
Interest and Fiscal Charges	2,487				2,487
Total Expenditures	<u>7,371,284</u>	<u>424,063</u>	<u>5,278</u>	<u>4,951</u>	<u>7,805,576</u>
Excess of Revenues Over (Under) Expenditures	(248,487)	(4,196)	(5,278)	4,795	(253,166)
Other Financing Uses:					
Operating Transfers - Out	(4,200)				(4,200)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(252,687)	(4,196)	(5,278)	4,795	(257,366)
Fund Balances at Beginning of Year	1,433,676	68,210	8,700	20,138	1,530,724
Decrease in Reserve for Inventory	(1,198)				(1,198)
Fund Balances at End of Year	<u>\$1,179,791</u>	<u>\$64,014</u>	<u>\$3,422</u>	<u>\$24,933</u>	<u>\$1,272,160</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,719,129	\$1,724,992	\$5,863			
Income Taxes	757,000	714,940	(42,060)			
Tuition and Fees	314,422	309,885	(4,537)			
Interest	49,000	41,039	(7,961)			
Intergovernmental	4,300,298	4,362,249	61,951	\$255,225	\$251,235	(\$3,990)
Extracurricular Activities				151,454	149,408	(2,046)
Rent	6,000	5,450	(550)			
Gifts and Donations		100	100	21,066	26,115	5,049
Miscellaneous	10,162	13,601	3,439			
Total Revenues	7,156,011	7,172,256	16,245	427,745	426,758	(987)
Expenditures:						
Current:						
Instruction:						
Regular	4,219,355	4,088,201	131,154	111,767	102,441	9,326
Special	644,747	615,232	29,515	95,552	94,686	866
Vocational	57,157	53,869	3,288			
Other	24,663	18,095	6,568			
Support Services:						
Pupils	327,239	270,131	57,108	95,420	94,184	1,236
Instructional Staff	427,688	403,034	24,654	45,362	35,666	9,696
Board of Education	41,046	37,899	3,147			
Administration	614,629	598,311	16,318			
Fiscal	183,897	167,737	16,160			
Operation and Maintenance of Plant	556,780	551,429	5,351			
Pupil Transportation	383,483	353,614	29,869			
Central	1,820	1,116	704	6,810	4,076	2,734
Operation of Non-Instructional Services	1,038	445	593	610	500	110
Extracurricular Activities	187,489	175,243	12,246	136,755	113,530	23,225
Capital Outlay	3,337	3,337				
Debt Service:						
Principal Retirement	260,336	190,377	69,959			
Interest and Fiscal Charges	2,487	2,487				
Total Expenditures	7,937,191	7,530,557	406,634	492,276	445,083	47,193
Excess of Revenues Over (Under) Expenditures	(781,180)	(358,301)	422,879	(64,531)	(18,325)	46,206
Other Financing Sources (Uses):						
Other Financing Sources				681	681	
Refund of Prior Year Expenditures	12,110	19,009	6,899			
Refund of Prior Year Receipts	(4,800)	(3,579)	1,221	(2,050)	(2,050)	
Advances - In	1,300	1,300				
Operating Transfers - Out	(4,200)	(4,200)				
Total Other Financing Sources (Uses)	4,410	12,530	8,120	(1,369)	(1,369)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(776,770)	(345,771)	430,999	(65,900)	(19,694)	46,206
Fund Balances at Beginning of Year	2,037,559	2,037,559		68,238	68,238	
Prior Year Encumbrances Appropriated	142,324	142,324		14,393	14,393	
Fund Balances at End of Year	\$1,403,113	\$1,834,112	\$430,999	\$16,731	\$62,937	\$46,206

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$179	\$201	\$22
			9,513	9,545	32
			9,692	9,746	54
\$8,700	\$6,478	\$2,222	15,145	2,519	12,626
			3,095		3,095
			3,500	3,500	
8,700	6,478	2,222	21,740	6,019	15,721
(8,700)	(6,478)	2,222	(12,048)	3,727	15,775
(8,700)	(6,478)	2,222	(12,048)	3,727	15,775
8,700	8,700		19,617	19,617	
			500	500	
\$0	\$2,222	\$2,222	\$8,069	\$23,844	\$15,775

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:			
Sales	\$245,079		\$245,079
Interest		\$97	97
Total Operating Revenues	<u>245,079</u>	<u>97</u>	<u>245,176</u>
Operating Expenses:			
Salaries and Wages	107,324		107,324
Fringe Benefits	47,844		47,844
Purchased Services	2,884		2,884
Supplies and Materials	40,886		40,886
Cost of Sales	122,164		122,164
Other		115	115
Depreciation	3,449		3,449
Total Operating Expenses	<u>324,551</u>	<u>115</u>	<u>324,666</u>
Operating Loss	<u>(79,472)</u>	<u>(18)</u>	<u>(79,490)</u>
Non-Operating Revenues:			
Interest	1,686		1,686
Federal and State Subsidies	52,674		52,674
Federal Donated Commodities	14,101		14,101
Total Non-Operating Revenues	<u>68,461</u>		<u>68,461</u>
Loss Before Operating Transfers	(11,011)	(18)	(11,029)
Operating Transfers - In	<u>4,200</u>		<u>4,200</u>
Net Loss	(6,811)	(18)	(6,829)
Retained Earnings/Fund Balance at Beginning of Year	<u>123,503</u>	<u>4,262</u>	<u>127,765</u>
Retained Earnings/Fund Balance at End of Year	<u><u>\$116,692</u></u>	<u><u>\$4,244</u></u>	<u><u>\$120,936</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Enterprise Funds</u>			<u>Nonexpendable Trust Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Sales	\$227,523	\$242,909	\$15,386			
Interest	4,000	1,757	(2,243)	\$115	\$115	
Federal and State Subsidies	49,700	52,674	2,974			
Total Revenues	<u>281,223</u>	<u>297,340</u>	<u>16,117</u>	<u>115</u>	<u>115</u>	
Expenses:						
Salaries and Wages	111,882	110,200	1,682			
Fringe Benefits	43,187	43,187				
Purchased Services	2,398	1,939	459			
Supplies and Materials	191,755	180,732	11,023			
Other				115	115	
Total Expenses	<u>349,222</u>	<u>336,058</u>	<u>13,164</u>	<u>115</u>	<u>115</u>	
Excess of Revenues Under Expenses	(67,999)	(38,718)	29,281			
Advances - Out	(1,300)	(1,300)				
Operating Transfers - In	4,200	4,200				
Excess of Revenues, Advances, and Transfers Under Expenses	(65,099)	(35,818)	29,281			
Fund Equity at Beginning of Year	117,600	117,600		4,192	4,192	
Prior Year Encumbrances Appropriated	22,998	22,998				
Fund Equity at End of Year	<u>\$75,499</u>	<u>\$104,780</u>	<u>\$29,281</u>	<u>\$4,192</u>	<u>\$4,192</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$242,909		\$242,909
Cash Payments for Employee Services and Benefits	(153,387)		(153,387)
Cash Payments to Suppliers for Goods and Services	(141,479)		(141,479)
Other Operating Expenses		(\$115)	(115)
Net Cash Used For Operating Activities	<u>(51,957)</u>	<u>(115)</u>	<u>(52,072)</u>
Cash Flows from Noncapital Financing Activities:			
Advances - Out	(1,300)		(1,300)
Operating Transfers - In	4,200		4,200
Federal and State Subsidies Received	52,674		52,674
Net Cash Provided By Noncapital Financing Activities	<u>55,574</u>		<u>55,574</u>
Cash Flows from Investing Activities:			
Interest	1,686	115	1,801
Net Increase in Cash and Cash Equivalents	5,303		5,303
Cash and Cash Equivalents Beginning of Year	140,797		140,797
Cash and Cash Equivalents End of Year	<u>146,100</u>	<u>0</u>	<u>146,100</u>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities:			
Operating Loss	(79,472)	(18)	(79,490)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:			
Depreciation	3,449		3,449
Donated Commodities Used	12,822		12,822
Interest in Nonexpendable Trust Fund		(115)	(115)
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(2,170)		(2,170)
Decrease in Accrued Interest Receivable		18	18
Increase in Prepaid Items	(2,454)		(2,454)
Increase in Inventory Held for Resale	(880)		(880)
Decrease in Inventory of Supplies and Materials	2,113		2,113
Increase in Accounts Payable	10,397		10,397
Increase in Accrued Wages and Benefits Payable	1,902		1,902
Decrease in Compensated Absences Payable	(3,028)		(3,028)
Increase in Intergovernmental Payable	5,364		5,364
Net Cash Used For Operating Activities	<u>(\$51,957)</u>	<u>(\$115)</u>	<u>(\$52,072)</u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Fund to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		\$36,754	
Cash and Cash Equivalents-Expendable Trust Funds		(20,408)	
Cash and Cash Equivalents-Agency Fund		(16,346)	
Cash and Cash Equivalents-Nonexpendable Trust Fund		<u>\$0</u>	

Non-Cash Transactions:

During fiscal year 2003, the Food Service Enterprise Fund received \$14,101 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Arcanum-Butler 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 statute and federal guidelines.

The School District was originally established in 1885 and consolidated as Arcanum-Butler Local School District through the consolidation of existing land areas and School Districts. The School District serves an area of approximately 54 square miles. It is located in Darke County, and includes all of the Villages of Arcanum, Ithaca, Gordon, and Castine and portions of Twin, Butler, VanBuren, and Neave Townships. It is staffed by 40 non-certificated employees, 79 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,128 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Arcanum-Butler 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. The School District has no component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and a related organization. These organizations are discussed in Note 17 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Related Organization:

- Arcanum Public Library

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Arcanum-Butler 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

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 governmental, proprietary, and fiduciary.

1. 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 - The 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.

Capital Projects Funds - The 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 or trust funds).

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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 Funds - The enterprise funds are used to account for School District 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 appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

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 include expendable trust, nonexpendable trust, and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. The nonexpendable trust fund is accounted for in essentially the same manner as the proprietary funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. 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, other than those accounted for in the proprietary or trust 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 the proprietary or trust 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 funds and expendable trust 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. 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.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All proprietary and nonexpendable trust funds are accounted for on 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 School District has no contributed capital. The proprietary fund type and nonexpendable trust fund's operating statement 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, expendable trust, and agency funds. The accrual basis of accounting is followed for the proprietary and nonexpendable trust funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 fiscal year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The Title VI-B and Handicapped Preschool special revenue funds' grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the function and object levels for all funds. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education.

1. 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 Darke County Budget Commission for rate determination.

2. 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 is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted; however, none of the amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the fiscal year for all funds, other than the Title VI-B and Handicapped Preschool special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

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

5. 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 Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except the nonexpendable trust fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

The balance of the grant activity administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agents" within the special revenue funds and represents deposits of the Darke County Educational Service Center.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District invests in certificates of deposit, which are reported at cost, and 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, 2003.

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 2003 amounted to \$38,456, which includes \$6,332 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 a maturity of more than three months that were 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, 2003, 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 is reported in the fiscal year in which services are consumed.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of the enterprise fund are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food and non-food supplies and are expensed when used.

G. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent unexpended grants restricted for the purchase of buses, and monies required by State statute to be set aside for the acquisition and construction of capital assets. See Note 19 for additional information regarding set-asides.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three hundred dollars. The School District does not have any infrastructure.

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. Interest incurred during the construction of general fixed assets is also not capitalized.

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 ten to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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 fifteen years of current 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 funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, special termination benefit payable, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Special Termination Benefit Payable

The Arcanum-Butler Local School District offers a termination benefit to certified employees. The contract with the Arcanum-Butler Classroom Teachers' Association runs from July 1, 2001 through June 30, 2004, and offers a termination benefit for fiscal years 2002, 2003, and 2004. The benefit is granted to a Qualifying Teacher, who has attained or will attain at least thirty years of service credit to apply toward pension calculation under the State Teachers Retirement System of Ohio, or a teacher who is 65 years of age and otherwise eligible to retire under rules of the State Teachers Retirement System of Ohio. The incentive can only be taken during the first eligible fiscal year for retirement. The incentive is \$1,000 per fiscal year of service with the Board, not to exceed \$10,000. Payment is made in one lump sum when the amount of the incentive has been recouped, as determined by the Treasurer, but no later than fourteen months following the effective date of the retirement. A Qualified Teacher who missed the February 1, 2002, 2003, or 2004 deadline, as the case may be, forfeits his/her right to the incentive. In fiscal year 2003, four qualifying teachers applied for the benefit.

L. Fund Balance Reserves and Designation

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. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory of supplies and materials, property taxes, contributions, school bus purchases, and capital improvements. A fund designation has been established for textbooks/instructional materials.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for contributions signifies the legal restrictions on the use of principal in the nonexpendable trust fund.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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 "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows 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.

3. ACCOUNTABILITY

At June 30, 2003, the Title I Special Revenue Fund had a deficit fund balance of \$13,636. The General Fund regularly provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. 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 Expendable Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds and Nonexpendable Trust 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).

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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 funds (GAAP basis).
4. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agents are included for GAAP reporting purposes (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
6. For the enterprise funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
7. Advances – in and advances – out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$222,687)	(\$4,196)	(\$5,278)	\$4,795
Revenue Accruals	66,731	3,947	0	(13)
Expenditure Accruals	(101,560)	(14)	0	2,500
Prepaid Items	46,685	0	0	0
Unrecorded Cash FY03	(2,042)	0	0	(8)
Unrecorded Cash FY02	3,779	3,450	0	21
Advances	1,300	0	0	0
Non-budgeted Activity	0	175	0	0
Outstanding Encumbrances	(137,977)	(23,056)	(1,200)	(3,568)
Budget Basis	<u>(\$345,771)</u>	<u>(\$19,694)</u>	<u>(\$6,478)</u>	<u>\$3,727</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Loss/Excess of Revenues, Advances, and Transfers Under Expenses
All Enterprise Funds and Nonexpendable Trust Fund**

	Enterprise	Nonexpendable Trust
GAAP Basis	(\$6,811)	(\$18)
Revenue Accruals	(3,449)	18
Expense Accruals	12,193	0
Prepaid Items	2,454	0
Unrecorded Cash FY03	(128)	0
Unrecorded Cash FY02	199	0
Inventory of Supplies and Materials	(2,113)	0
Advances	(1,300)	0
Inventory Held for Resale	880	0
Outstanding Encumbrances	(41,192)	0
Depreciation Expense	3,449	0
Budget Basis	(\$35,818)	\$0

5. 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 that 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 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.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

Investments may only be made through specified dealers and institutions. 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.

Cash on Hand: At fiscal year-end, the School District had \$690 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$58,245 and the bank balance was \$85,381, all of which was covered by federal depository insurance.

Investments: The School District's investments are required to be 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 or 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 which 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, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. It is an unclassified investment with a fair value of \$2,198,670.

At June 30, 2003, the School District had "cash and cash equivalents with fiscal agent" in the special revenue funds of \$3,204. The money is held by the Darke County Educational Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Emiko Augsburger, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

The classification of cash and cash equivalents and investments on the combined financial statements 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 classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,249,604	\$11,205
Cash on Hand	(690)	0
Cash and Cash Equivalents with Fiscal Agent	(3,204)	0
STAR Ohio	(2,198,670)	2,198,670
Certificate of Deposit	11,205	(11,205)
GASB Statement No. 3	\$58,245	\$2,198,670

6. PROPERTY TAXES

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

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003, and for which there is 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 reported 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, 2003, was \$164,917 in the General Fund. The amount available as an advance at June 30, 2002, was \$179,571 in the General Fund.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$84,579,770	90.46%	\$87,417,330	90.59%
Personal Property – Real	5,885,950	6.30%	5,947,670	6.16%
Tangible Personal Property	3,032,160	3.24%	3,129,610	3.25%
Total Assessed Value	<u>\$93,497,880</u>	<u>100.00%</u>	<u>\$96,494,610</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$26.18		\$26.18	

7. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, 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.

8. RECEIVABLES

Receivables at June 30, 2003, consisted of both property and income taxes, accounts (student fees and reimbursements), accrued interest, and intergovernmental (billings for user charged services, reimbursements, tuition, and grants). All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Franklin Monroe LSD FY03 MH Excess Cost	\$6,176
Tri-Village LSD FY03 MH Excess Cost	2,465
E-Rate Reimbursement	4,590
JV04 FY03 SF-3 Adjustment	5,527
SF-14 Adjustment	1,276
MH Transportation	9,706
Total General Fund	<u>29,740</u>
Special Revenue Funds:	
Title VI-B	13,022
Title I	2,774
Title VI	2,199
Handicapped Preschool	713
Total Special Revenue Funds	<u>18,708</u>
Total Intergovernmental Receivables	<u>\$48,448</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$63,177
Less Accumulated Depreciation	<u>(47,954)</u>
Net Fixed Assets	<u><u>\$15,223</u></u>

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
Land and Improvements	\$405,244	\$0	\$0	\$405,244
Buildings and Improvements	3,805,471	5,187	1,164	3,809,494
Furniture, Fixtures and Equipment	1,435,500	194,015	55,021	1,574,494
Vehicles	758,962	0	0	758,962
Totals	<u><u>\$6,405,177</u></u>	<u><u>\$199,202</u></u>	<u><u>\$56,185</u></u>	<u><u>\$6,548,194</u></u>

There was no significant construction in progress at June 30, 2003.

10. RISK MANAGEMENT

A. Property and Liability

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 2003, the School District contracted with Selective Insurance Company of South Carolina for liability and fleet insurance. Nationwide Insurance Company is the carrier for errors and omissions insurance, while The Cincinnati Insurance Company is the carrier for property insurance, inland marine, and electronic data processing coverage.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$1,000 deductible)	\$16,971,566
Electronic Data Processing Coverage (\$250 deductible)	847,312
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
Collision (\$1,000 deductible)	Actual Cash Value
General Liability (\$1,000 deductible)	
Per occurrence	2,000,000
Total per year	4,000,000
Errors and Omissions (\$5,000 deductible)	1,000,000
Employer's Liability and Stop Gap	
Per occurrence	1,000,000
Disease – Each Employee	1,000,000
Employee Benefit Liability (\$1,000 deductible)	
Each Offense	2,000,000
Aggregate Limit	4,000,000
Umbrella Liability	
Per occurrence	1,000,000
Aggregate Limit	1,000,000

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. RISK MANAGEMENT (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been a significant increase in insurance coverage from the last fiscal year.

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$76,754, \$42,628 and \$23,879 respectively; 53 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$515,772, \$364,356, and \$360,984 respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$274 made by the School District and \$494 made by the plan members.

12. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$39,675 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal 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.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$73,742.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to administrators upon termination of employment. Classified employees can carry over vacation for one fiscal year, and then it is lost. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 232 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 58 days for all employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through CoreSource to most employees. Medical, dental, and vision benefits are provided by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 17).

14. SHORT-TERM OBLIGATION

During fiscal year 2002, the School District issued a revenue anticipation note in the amount of \$297,154 to purchase land. Two payments of \$148,577 are due, one during fiscal year 2003, the other during fiscal year 2004. The revenue anticipation note carries an interest rate of 0 percent. The note will be retired from the General Fund since this is the fund that received the proceeds.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

15. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03
Energy Conservation Note				
1993 5.95%	\$41,800	\$0	\$41,800	\$0
Compensated Absences Payable	439,046	0	84,802	354,244
Intergovernmental Payable	42,945	52,132	42,945	52,132
Special Termination Benefit Payable	30,000	10,000	0	40,000
Total General Long-Term Obligations	\$553,791	\$62,132	\$169,547	\$446,376

Energy Conservation Note – On July 24, 1992, Arcanum-Butler Local School District issued \$320,000 in an unvoted general obligation note for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The note was issued for a ten year period with final maturity during fiscal year 2003. The note was retired from the General Fund.

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Compensated absences, intergovernmental payable, and special termination benefit payable will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$8,684,515 and the unvoted debt margin was \$96,495 at June 30, 2003.

16. SEGMENT INFORMATION

The School District maintains two enterprise funds to account for the operations of Food Service and Uniform School Supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Arcanum-Butler Local School District as of and for the fiscal year ended June 30, 2003.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$203,418	\$41,661	\$245,079
Depreciation Expense	3,449	0	3,449
Operating Income (Loss)	(80,974)	1,502	(79,472)
Interest	1,686	0	1,686
Federal and State Subsidies	52,674	0	52,674
Federal Donated Commodities	14,101	0	14,101
Operating Transfers – In	0	4,200	4,200
Net Income (Loss)	(12,513)	5,702	(6,811)
Net Working Capital	89,187	18,693	107,880
Total Assets	154,858	19,255	174,113
Long-Term Compensated Absences Payable	6,411	0	6,411
Total Equity	97,999	18,693	116,692
Encumbrances Outstanding at June 30, 2003	39,804	1,388	41,192

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Arcanum-Butler Local School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. 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 MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. During fiscal year 2003, the School District paid \$33,357 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2003, the School District paid \$2,208 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2003, the School District paid \$18,785 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

C. Related Organization

Arcanum Public Library – The Arcanum Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Arcanum-Butler Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Arcanum Public Library, Roberta J. Brown, Clerk/Treasurer, at 101 North Street, Arcanum, Ohio 45304.

18. CONTINGENCIES

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 are 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, 2003.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

19. SET-ASIDE CALCULATIONS

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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for capital improvements and textbooks/instructional materials. Disclosure of this information is required by State statute.

	Textbooks/ Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balance as of		
June 30, 2002	\$52,160	\$67,483
Current Fiscal Year Set-aside Requirement	151,053	151,053
Qualifying Disbursements	(206,827)	(148,577)
Set-aside Balance Carried Forward to		
Future Fiscal Years	(\$3,614)	\$69,959
Set-aside Reserve Balance as of		
June 30, 2003	\$0	\$69,959

The School District had qualifying disbursements for textbooks/instructional materials during the fiscal year that reduced the set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future fiscal years.

20. 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 decision 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 on its financial operations.

21. SUBSEQUENT EVENT

On July 1, 2003, the final payment was made on the revenue anticipation note.

The School District contracted with the Southwestern Ohio Educational Purchasing Council for property, umbrella, and educators' legal liability insurance on July 1, 2003. This is a significant increase in insurance coverage from fiscal year-end.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$2,057,921	\$86,080	\$8,700
Cash and Cash Equivalents with Fiscal Agent		3,379	
Investments			
Property Taxes Receivable	1,699,814		
Income Taxes Receivable	291,964		
Accounts Receivable	4,691	2,585	
Intergovernmental Receivable	17,040	109	
Accrued Interest Receivable	1,797		
Interfund Receivable	1,300		
Prepaid Items	22,136		
Inventory Held for Resale			
Inventory of Supplies and Materials	2,417		
Restricted Asset: Equity in Pooled Cash and Cash Equivalents	125,741		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	4,224,821	92,153	8,700
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	\$47,202	\$6,221	
Accrued Wages and Benefits Payable	703,479	16,461	
Compensated Absences Payable	58,645		
Intergovernmental Payable	139,881	1,261	
Interfund Payable			
Deferred Revenue	1,544,784		
Due to Students			
Notes Payable	297,154		
Energy Conservation Loan Payable			
Special Termination Benefit Payable			
Total Liabilities	2,791,145	23,943	
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	92,273	12,097	
Reserved for Inventory of Supplies and Materials	2,417		
Reserved for Property Taxes	179,571		
Reserved for Contributions			
Reserved for School Bus Purchases	6,098		
Reserved for Textbooks/Instructional Materials	52,160		
Reserved for Capital Improvements	67,483		
Unreserved, Undesignated	1,033,674	56,113	8,700
Total Fund Equity and Other Credits	1,433,676	68,210	8,700
Total Liabilities, Fund Equity and Other Credits	\$4,224,821	\$92,153	\$8,700

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$140,797	\$36,911			\$2,330,409
				3,379
	4,192			4,192
				1,699,814
				291,964
3,556				10,832
				17,149
	70			1,867
				1,300
254				22,390
1,387				1,387
2,924				5,341
				125,741
18,672		\$6,405,177		6,423,849
			553,791	553,791
<u>167,590</u>	<u>41,173</u>	<u>6,405,177</u>	<u>553,791</u>	<u>11,493,405</u>
2,220				55,643
19,764				739,704
9,439			439,046	507,130
11,364			42,945	195,451
1,300				1,300
				1,544,784
	16,773			16,773
				297,154
			41,800	41,800
			30,000	30,000
<u>44,087</u>	<u>16,773</u>		<u>553,791</u>	<u>3,429,739</u>
		6,405,177		6,405,177
123,503				123,503
	500			104,870
				2,417
				179,571
	4,180			4,180
				6,098
				52,160
				67,483
	19,720			1,118,207
<u>123,503</u>	<u>24,400</u>	<u>6,405,177</u>		<u>8,063,666</u>
<u>\$167,590</u>	<u>\$41,173</u>	<u>\$6,405,177</u>	<u>\$553,791</u>	<u>\$11,493,405</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Property Taxes	\$1,613,325				\$1,613,325
Income Taxes	741,166				741,166
Tuition and Fees	287,441				287,441
Interest	72,397			\$295	72,692
Intergovernmental	4,353,050	\$174,703	\$44,420		4,572,173
Extracurricular Activities		137,270			137,270
Rent	5,052				5,052
Gifts and Donations		25,375		5,977	31,352
Miscellaneous	46,550				46,550
Total Revenues	<u>7,118,981</u>	<u>337,348</u>	<u>44,420</u>	<u>6,272</u>	<u>7,507,021</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,963,698	93,219	36,036		4,092,953
Special	505,738	111,917			617,655
Vocational	87,782				87,782
Support Services:					
Pupils	311,176	33,924			345,100
Instructional Staff	349,106	24,437	22,447	2,027	398,017
Board of Education	17,059				17,059
Administration	546,554				546,554
Fiscal	174,804				174,804
Operation and Maintenance of Plant	454,784				454,784
Pupil Transportation	383,968				383,968
Central	1,687	5,136			6,823
Operation of Non-Instructional Services	2,878	490			3,368
Extracurricular Activities	217,226	121,612			338,838
Capital Outlay	470,254				470,254
Debt Service:					
Principal Retirement	39,200				39,200
Interest and Fiscal Charges	4,820				4,820
Total Expenditures	<u>7,530,734</u>	<u>390,735</u>	<u>58,483</u>	<u>2,027</u>	<u>7,981,979</u>
Excess of Revenues Over (Under) Expenditures	(411,753)	(53,387)	(14,063)	4,245	(474,958)
Other Financing Uses:					
Operating Transfers - Out	(2,500)				(2,500)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(414,253)	(53,387)	(14,063)	4,245	(477,458)
Fund Balances at Beginning of Year	1,846,377	121,597	22,763	15,893	2,006,630
Increase in Reserve for Inventory	1,552				1,552
Fund Balances at End of Year	<u>\$1,433,676</u>	<u>\$68,210</u>	<u>\$8,700</u>	<u>\$20,138</u>	<u>\$1,530,724</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,686,676	\$1,684,356	(\$2,320)			
Income Taxes	697,566	739,584	42,018			
Tuition and Fees	284,167	281,051	(3,116)			
Interest	84,400	78,237	(6,163)			
Intergovernmental	4,310,848	4,356,221	45,373	\$199,443	\$199,462	\$19
Extracurricular Activities				133,531	137,597	4,066
Rent		5,052	5,052			
Gifts and Donations				20,643	24,875	4,232
Miscellaneous	2,657	6,643	3,986			
Total Revenues	7,066,314	7,151,144	84,830	353,617	361,934	8,317
Expenditures:						
Current:						
Instruction:						
Regular	4,116,795	3,950,282	166,513	124,684	111,724	12,960
Special	575,475	515,532	59,943	129,261	111,074	18,187
Vocational	65,132	61,764	3,368			
Other	27,899	20,952	6,947			
Support Services:						
Pupils	302,518	297,389	5,129	36,639	33,924	2,715
Instructional Staff	422,565	374,365	48,200	27,441	25,132	2,309
Board of Education	27,294	20,902	6,392			
Administration	567,791	554,394	13,397			
Fiscal	198,991	184,783	14,208			
Operation and Maintenance of Plant	619,774	522,255	97,519	1,145		1,145
Pupil Transportation	490,461	424,946	65,515			
Central	2,720	1,646	1,074	6,729	4,919	1,810
Operation of Non-Instructional Services	1,840	720	1,120	537	500	37
Extracurricular Activities	232,638	216,698	15,940	126,675	118,830	7,845
Capital Outlay	224,637	173,099	51,538			
Debt Service:						
Principal Retirement	39,200	39,200				
Interest and Fiscal Charges	4,820	4,820				
Total Expenditures	7,920,550	7,363,747	556,803	453,111	406,103	47,008
Excess of Revenues Over (Under) Expenditures	(854,236)	(212,603)	641,633	(99,494)	(44,169)	55,325
Other Financing Sources (Uses):						
Other Financing Sources				682	682	
Other Financing Uses	(5,110)		5,110			
Refund of Prior Year Expenditures	40,716	40,716				
Refund of Prior Year Receipts	(7,707)	(5,078)	2,629	(24,767)	(24,767)	
Advances - Out	(1,300)	(1,300)				
Operating Transfers - Out	(2,500)	(2,500)				
Total Other Financing Sources (Uses)	24,099	31,838	7,739	(24,085)	(24,085)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(830,137)	(180,765)	649,372	(123,579)	(68,254)	55,325
Fund Balances at Beginning of Year	1,956,343	1,956,343		112,549	112,549	
Prior Year Encumbrances Appropriated	261,981	261,981		23,943	23,943	
Fund Balances at End of Year	\$1,388,187	\$2,037,559	\$649,372	\$12,913	\$68,238	\$55,325

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$35,720	\$44,420	\$8,700	\$243	\$300	\$57
			5,977	5,977	
<u>35,720</u>	<u>44,420</u>	<u>8,700</u>	<u>6,220</u>	<u>6,277</u>	<u>57</u>
36,036	36,036				
22,500	22,500		16,950	2,027	14,923
			3,095		3,095
			500	500	
<u>58,536</u>	<u>58,536</u>	<u></u>	<u>20,545</u>	<u>2,527</u>	<u>18,018</u>
<u>(22,816)</u>	<u>(14,116)</u>	<u>8,700</u>	<u>(14,325)</u>	<u>3,750</u>	<u>18,075</u>
(22,816)	(14,116)	8,700	(14,325)	3,750	18,075
255	255		15,315	15,315	
22,561	22,561		552	552	
<u>\$0</u>	<u>\$8,700</u>	<u>\$8,700</u>	<u>\$1,542</u>	<u>\$19,617</u>	<u>\$18,075</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:			
Sales	\$227,959		\$227,959
Interest		\$289	289
Total Operating Revenues	<u>227,959</u>	<u>289</u>	<u>228,248</u>
Operating Expenses:			
Salaries and Wages	105,968		105,968
Fringe Benefits	36,994		36,994
Purchased Services	2,418		2,418
Supplies and Materials	15,265		15,265
Cost of Sales	143,427		143,427
Other		219	219
Depreciation	3,427		3,427
Total Operating Expenses	<u>307,499</u>	<u>219</u>	<u>307,718</u>
Operating Income (Loss)	<u>(79,540)</u>	<u>70</u>	<u>(79,470)</u>
Non-Operating Revenues (Expenses):			
Interest	3,137		3,137
Federal and State Subsidies	50,571		50,571
Federal Donated Commodities	13,097		13,097
Loss on Sale of Fixed Assets	(1,288)		(1,288)
Total Non-Operating Revenues (Expenses)	<u>65,517</u>		<u>65,517</u>
Income (Loss) Before Operating Transfers	(14,023)	70	(13,953)
Operating Transfers - In	<u>2,500</u>		<u>2,500</u>
Net Income (Loss)	(11,523)	70	(11,453)
Retained Earnings/Fund Balance at Beginning of Year	<u>135,026</u>	<u>4,192</u>	<u>139,218</u>
Retained Earnings/Fund Balance at End of Year	<u><u>\$123,503</u></u>	<u><u>\$4,262</u></u>	<u><u>\$127,765</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise Funds			Nonexpendable Trust Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Sales	\$215,371	\$226,695	\$11,324			
Interest	4,000	3,395	(605)	\$219	\$219	
Federal and State Subsidies	39,450	50,571	11,121			
Proceeds from Sale of Fixed Assets	200	200				
Refund of Prior Year Expense	150	150				
Total Revenues	259,171	281,011	21,840	219	219	
Expenses:						
Salaries and Wages	114,828	102,886	11,942			
Fringe Benefits	42,342	36,505	5,837			
Purchased Services	8,200	2,076	6,124			
Supplies and Materials	193,026	168,891	24,135			
Capital Outlay	5,208	1,068	4,140			
Other				219	219	
Total Expenses	363,604	311,426	52,178	219	219	
Excess of Revenues Under Expenses	(104,433)	(30,415)	74,018			
Advances - In	3,831	1,300	(2,531)			
Operating Transfers - In		2,500	2,500			
Excess of Revenues, Advances, and Transfers Under Expenses	(100,602)	(26,615)	73,987			
Fund Equity at Beginning of Year	127,475	127,475		4,192	4,192	
Prior Year Encumbrances Appropriated	16,740	16,740				
Fund Equity at End of Year	\$43,613	\$117,600	\$73,987	\$4,192	\$4,192	\$0

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$226,695		\$226,695
Cash Received from Other Operating Revenues	350		350
Cash Payments for Employee Services and Benefits	(139,391)		(139,391)
Cash Payments to Suppliers for Goods and Services	(147,968)		(147,968)
Other Operating Expenses		(\$219)	(219)
Net Cash Used For Operating Activities	<u>(60,314)</u>	<u>(219)</u>	<u>(60,533)</u>
Cash Flows from Noncapital Financing Activities:			
Advances - In	1,300		1,300
Operating Transfers - In	2,500		2,500
Federal and State Subsidies Received	50,571		50,571
Net Cash Provided By Noncapital Financing Activities	<u>54,371</u>		<u>54,371</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(1,068)		(1,068)
Cash Flows from Investing Activities:			
Interest	3,137	219	3,356
Net Decrease in Cash and Cash Equivalents	(3,874)		(3,874)
Cash and Cash Equivalents Beginning of Year	144,671		144,671
Cash and Cash Equivalents End of Year	<u>140,797</u>		<u>140,797</u>
Reconciliation of Operating Income (Loss) to Net Cash Used For Operating Activities:			
Operating Income (Loss)	(79,540)	70	(79,470)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used For Operating Activities:			
Depreciation	3,427		3,427
Donated Commodities Used	12,538		12,538
Interest in Nonexpendable Trust Fund		(219)	(219)
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(1,263)		(1,263)
Increase in Accrued Interest Receivable		(70)	(70)
Decrease in Prepaid Items	1,400		1,400
Decrease in Inventory Held for Resale	977		977
Increase in Inventory of Supplies and Materials	(677)		(677)
Increase in Accounts Payable	508		508
Increase in Accrued Wages and Benefits Payable	1,858		1,858
Decrease in Compensated Absences Payable	(24)		(24)
Increase in Intergovernmental Payable	482		482
Net Cash Used For Operating Activities	<u>(\$60,314)</u>	<u>(219)</u>	<u>(\$60,533)</u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Fund to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		\$36,911	
Cash and Cash Equivalents-Expendable Trust Funds		(20,138)	
Cash and Cash Equivalents-Agency Fund		<u>(16,773)</u>	
Cash and Cash Equivalents-Nonexpendable Trust Fund		<u>\$0</u>	

Non-Cash Transactions:

During fiscal year 2002, the Food Service Enterprise Fund received \$13,097 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Arcanum-Butler 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 statute and federal guidelines.

The School District was originally established in 1885 and consolidated as Arcanum-Butler Local School District through the consolidation of existing land areas and school districts. The School District serves an area of approximately 54 square miles. It is located in Darke County, and includes all of the Villages of Arcanum, Ithaca, Gordon, and Castine and portions of Twin, Butler, VanBuren, and Neave Townships. It is staffed by 40 non-certificated employees, 78 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,109 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one garage.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Arcanum-Butler 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. The School District has no component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and a related organization. These organizations are discussed in Note 17 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Related Organization:

Arcanum Public Library

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Arcanum-Butler 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

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 governmental, proprietary, and fiduciary.

1. 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 - The 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.

Capital Projects Funds - The 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 or trust funds).

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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 Funds - The enterprise funds are used to account for School District 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 appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

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 include expendable trust, nonexpendable trust, and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. The nonexpendable trust fund is accounted for in essentially the same manner as the proprietary funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. 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, other than those accounted for in the proprietary or trust 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 the proprietary or trust 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 funds and expendable trust 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. 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.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All proprietary and nonexpendable trust funds are accounted for on 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 School District has no contributed capital. The proprietary fund type and nonexpendable trust fund's operating statement 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, expendable trust, and agency funds. The full accrual basis of accounting is followed for the proprietary and nonexpendable trust funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 5.) 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 fiscal year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. A portion of the Title II, Title VI-B, and Handicapped Preschool special revenue funds' grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the function and object levels for all funds. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education.

1. 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 Darke County Budget Commission for rate determination.

2. 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 is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted; however, none of the amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the fiscal year for all funds, other than portions of the Title II, Title VI-B, and Handicapped Preschool special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

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

5. 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 Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except the nonexpendable trust fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

The balance of the grant activity administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agents" within the special revenue funds and represents deposits of the Darke County Educational Service Center.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District invests in certificates of deposit, which are reported at cost, and 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 amounted to \$72,397, which includes \$20,081 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 a maturity of more than three months that were not purchased from the pool are reported as investments.

E. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

F. 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 is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories of governmental funds are stated at cost while inventories of the enterprise fund are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of the enterprise fund consist of donated food, purchased food, and non-food supplies and are expensed when used.

H. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent unexpended grants restricted for the purchase of buses, and monies required by State statute to be set aside for the purchase of textbooks and other instructional materials, and for the acquisition and construction of capital assets. See Note 19 for additional information regarding set-asides.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three hundred dollars. The School District does not have any infrastructure.

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. Interest incurred during the construction of general fixed assets is also not capitalized.

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 ten to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

J. 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 fifteen years of current 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 funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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, contractually required pension contributions, and special termination benefits payable that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources. Long-term loans are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Special Termination Benefit

The Arcanum-Butler Local School District offers a termination benefit to certified employees. The contract with the Arcanum-Butler Classroom Teachers' Association runs from July 1, 2001 through June 30, 2004 and offers a termination benefit for fiscal years 2002, 2003, and 2004. The previous three-year contract offered the same termination benefit for fiscal years 1999, 2000, and 2001. The benefit is granted to a Qualifying Teacher, who has attained or will attain at least thirty years of service credit to apply toward pension calculation under the State Teachers' Retirement System, or a teacher who is 65 years of age and otherwise eligible to retire under rules of the State Teachers' Retirement System. The incentive can only be taken during the first eligible fiscal year for retirement. The incentive is \$1,000 per fiscal year of service with the Board, not to exceed \$10,000. Payment is made in one lump sum when the amount of the incentive has been recouped, as determined by the Treasurer, but no later than fourteen months following the effective date of the retirement. A Qualified Teacher who missed the February 1, 2002, 2003, or 2004 deadline, as the case may be, forfeits his/her right to the incentive. In fiscal year 2002, three qualifying teachers applied for the benefit.

M. 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 encumbrances, inventory of supplies and materials, property taxes, contributions, school bus purchases, textbooks/instructional materials, and capital improvements.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for contributions signifies the legal restrictions on the use of principal in the nonexpendable trust fund.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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.

O. Estimates

The preparation of the 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.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows 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.

3. 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 Expendable Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds and Nonexpendable Trust 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).

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

4. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agents are included for GAAP reporting purposes (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
6. For the proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
7. Advances – in and advances – out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$414,253)	(\$53,387)	(\$14,063)	\$4,245
Revenue Accruals	67,981	62,215	0	26
Expenditure Accruals	319,508	(62,334)	(53)	0
Prepaid Items	(15,275)	5	0	0
Unrecorded Cash	4,898	(3,450)	0	(21)
Advances	(1,300)	0	0	0
Non-budgeted Activity	0	3,089	0	0
Outstanding Encumbrances	(142,324)	(14,392)	0	(500)
Budget Basis	<u>(\$180,765)</u>	<u>(\$68,254)</u>	<u>(\$14,116)</u>	<u>\$3,750</u>

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Income/Excess of Revenues, Advances, and Transfers Under Expenses
All Enterprise Funds and Nonexpendable Trust Fund**

	Enterprise	Nonexpendable Trust
GAAP Basis	(\$11,523)	\$70
Revenue Accruals	(355)	(70)
Expense Accruals	5,315	0
Prepaid Items	(1,400)	0
Unrecorded Cash	258	0
Inventory of Supplies and Materials	677	0
Advances	1,300	0
Federal Donated Commodities	(559)	0
Inventory Held for Resale	(977)	0
Loss on Sale of Fixed Assets	1,288	0
Acquisition of Capital Assets	(1,068)	0
Outstanding Encumbrances	(22,998)	0
Depreciation Expense	3,427	0
Budget Basis	(\$26,615)	\$0

4. 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 that 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 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.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

Investments may only be made through specified dealers and institutions. 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.

Cash on Hand: At fiscal year-end, the School District had \$650 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$34,025 and the bank balance was \$49,611, all of which was covered by federal depository insurance.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be 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 or 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 which 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 only School District investment at fiscal year-end was STAR Ohio. It is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. It has a fair value of \$2,425,667.

At June 30, 2002, the School District had "cash and cash equivalents with fiscal agent" in the special revenue funds of \$3,379. The money is held by the Darke County Educational Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Carolyn Gallimore, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

The classification of cash and cash equivalents and investments on the combined financial statements 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 classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,459,529	\$4,192
Cash on Hand	(650)	0
Cash and Cash Equivalents with Fiscal Agent	(3,379)	0
Investments of the Cash Management Pool:		
STAR Ohio	(2,425,667)	2,425,667
Certificate of Deposit	4,192	(4,192)
GASB Statement No. 3	\$34,025	\$2,425,667

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. PROPERTY TAXES (Continued)

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true 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.

Tangible personal property taxes 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 assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$83,070,130	89.58%	\$84,579,770	90.46%
Personal Property – Real	6,945,640	7.49%	5,885,950	6.30%
Tangible Personal Property	2,716,950	2.93%	3,032,160	3.24%
Total Assessed Value	<u>\$92,732,720</u>	<u>100.00%</u>	<u>\$93,497,880</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$26.18		\$26.18	

The School District receives property taxes from Darke 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, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is 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 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2002, was \$179,571 in the General Fund.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

6. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, 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.

7. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees, donations, and reimbursements), accrued interest, interfund, and intergovernmental (billings for user charged services, reimbursements, tuition, and grants). All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

	Amounts
General Fund:	
Franklin Monroe LSD FY02 Transportation	\$491
Tri-Village LSD MH and SED Transportation FY02	9,872
Bureau of Workers' Compensation Refund	122
Overtime and Part-time Reimbursement	1,604
JV04 FY02 SF-3 Adjustment	1,106
SF-14 Adjustment	2,548
SED Transportation	1,297
Total General Fund	17,040
Special Revenue Fund:	
Title III	109
Total Intergovernmental Receivables	\$17,149

8. FIXED ASSETS

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

Furniture and Equipment	\$63,177
Less Accumulated Depreciation	(44,505)
Net Fixed Assets	\$18,672

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

8. FIXED ASSETS (Continued)

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>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$62,380	\$342,864	\$0	\$405,244
Buildings and Improvements	3,459,393	346,078	0	3,805,471
Furniture, Fixtures and Equipment	1,319,314	160,992	44,806	1,435,500
Vehicles	724,062	102,611	67,711	758,962
Totals	<u>\$5,565,149</u>	<u>\$952,545</u>	<u>\$112,517</u>	<u>\$6,405,177</u>

There was no significant construction in progress at June 30, 2002.

9. RISK MANAGEMENT

A. Property and Liability

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 with Great American Alliance Insurance Company for liability insurance. Nationwide Insurance Company is the carrier for fleet insurance, while The Cincinnati Insurance Company is the carrier for property insurance, inland marine, and electronic data processing coverage

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$1,000 deductible)	\$16,282,100
Inland Marine Coverage (\$100 deductible)	839,206
Electronic Data Processing Coverage (\$1,000 deductible)	886,983
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
Collision (\$100 deductible)	Actual Cash Value
General Liability (\$1,000 deductible)	
Per occurrence	1,000,000
Total per year	5,000,000

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

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

10. DEFINED BENEFIT PENSION PLANS

A. 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. 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$42,628, \$23,879, and \$23,175, respectively; 49 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$21,748 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

B. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$364,356, \$360,984, and \$182,863, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$63,617 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

11. 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 non-certified 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$172,590 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. 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 fiscal 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$81,205.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended 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.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to administrators upon termination of employment. Classified employees can carry over vacation for one fiscal year, then it is lost. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 232 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 58 days for all employees.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. OTHER EMPLOYEE BENEFITS (Continued)

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through CoreSource to most employees. Medical benefits are provided by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 17). Dental and vision are provided through CoreSource and VSP, respectively.

13. SHORT-TERM OBLIGATION

During fiscal year 2002, the School District issued a revenue anticipation note in the amount of \$297,154 to purchase land. Two payments of \$148,577 are due, one during fiscal year 2003, the other during fiscal year 2004. The revenue anticipation note carries an interest rate of 0%. The note will be retired from the General Fund.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
Energy Conservation Note 1993 5.95%	\$81,000	\$0	\$39,200	\$41,800
Intergovernmental Payable	56,352	42,945	56,352	42,945
Compensated Absences Payable	445,590	0	6,544	439,046
Special Termination Benefits Payable	0	30,000	0	30,000
Total General Long-Term Obligations	\$582,942	\$72,945	\$102,096	\$553,791

Energy Conservation Note – On July 24, 1992, Arcanum-Butler Local School District issued \$320,000 in an unvoted general obligation note for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The note was issued for a ten year period with final maturity during fiscal year 2003. The note will be retired from the General Fund.

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Intergovernmental payable, compensated absences, and the special termination benefit payable will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$8,414,809, the energy conservation debt margin was \$799,681 and the unvoted debt margin was \$93,498 at June 30, 2002.

15. INTERFUND ACTIVITY

At June 30, 2002, the General Fund had an interfund receivable of \$1,300. The Uniform School Supplies Enterprise Fund had an interfund payable of \$1,300.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

16. SEGMENT INFORMATION

The School District maintains two enterprise funds to account for the operations of Food Service and Uniform School Supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Arcanum-Butler Local School District as of and for the fiscal year ended June 30, 2002.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$189,378	\$38,581	\$227,959
Depreciation Expense	3,427	0	3,427
Operating Loss	(77,054)	(2,486)	(79,540)
Interest	3,137	0	3,137
Federal and State Subsidies	50,571	0	50,571
Federal Donated Commodities	13,097	0	13,097
Operating Transfers - In	0	2,500	2,500
Net Income (Loss)	(11,537)	14	(11,523)
Fixed Asset Additions	1,068	0	1,068
Fixed Asset Deletions	10,820	0	10,820
Net Working Capital	101,279	12,991	114,270
Total Assets	151,730	15,860	167,590
Long-Term Compensated Absences Payable	6,160	0	6,160
Total Equity	110,512	12,991	123,503
Encumbrances Outstanding at June 30, 2002	21,464	1,534	22,998

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Arcanum-Butler Local School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. 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 MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. During fiscal year 2002, the School District paid \$25,458 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Dyirector, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, the School District paid \$4,733 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2002, the School District paid \$4,239 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

C. Related Organization

Arcanum Public Library – The Arcanum Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Arcanum-Butler Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Arcanum Public Library, Roberta J. Brown, Clerk/Treasurer, at 101 North Street, Arcanum, Ohio 45304.

18. CONTINGENCIES

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 are 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.

19. SET-ASIDE CALCULATIONS

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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for capital improvements and textbooks/instructional materials. Disclosure of this information is required by State statute.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

19. SET-ASIDE CALCULATIONS (Continued)

	Textbooks/ Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2001	\$116,219	\$60,219
Current Fiscal Year Set-aside Requirement Qualifying Disbursements	138,498 (202,557)	138,498 (131,234)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$52,160</u>	<u>\$67,483</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$52,160</u>	<u>\$67,483</u>

The total reserve balance presented on the balance sheet for the two set-asides at the end of fiscal year 2002 was \$119,643.

20. 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 decision 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 on its financial operations.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Arcanum-Butler Local School District
Darke County
2 Weisenbarger Court
Arcanum, Ohio 45304

To the Board of Education:

We have audited the financial statements of the Arcanum-Butler Local School District (the "District"), Darke County as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated November 20, 2003. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

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, which we have reported to management of the District in a separate letter dated November 20, 2003.

Arcanum-Butler Local School District
Darke County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 20, 2003

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Finding for Recovery Repaid Under Audit

Arcanum-Butler Local School District Policy Manual section GCPCA, entitled "Severance Pay," states that "a severance amount calculated by a prescribed formula applied to the employee's sick leave and daily rate of pay at the time of retirement from the District is granted to certified staff employees in compliance with the negotiated agreement." The negotiated agreement states that employees may accrue up to 232 days maximum and be paid out at a rate of twenty-five percent.

Upon separation in July of 2002, teacher Marylin S. Banks sick leave was paid out in the amount of fifteen thousand two hundred fifty one dollars and thirty eight cents (\$15,251.38) for 57.63 hours at a daily rate of \$264.643. Her total accrued sick leave was 230.5 hours and she should have been paid at a daily rate of \$229.584 for twenty-five percent of that leave or thirteen thousand two hundred thirty dollars and ninety three cents (\$13,230.93). Mrs. Banks was paid two thousand twenty dollars and forty-five cents (\$2,020.45) in excess of the above limitation based on the District's conversion policy.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money illegally expended was proposed against Marylin Banks, former District employee, in the amount of two thousand twenty dollars and forty-five cents (\$2,020.45) in favor of the Arcanum-Butler Local School District General Fund.

The finding was repaid to the District under audit by Mrs. Banks on October 30, 2003.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

ARCANUM-BUTLER LOCAL SCHOOL DISTRICT

DARKE 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
DECEMBER 30, 2003**