



Mary Taylor, CPA
Auditor of State

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

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

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Mary Taylor, CPA

Auditor of State

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, (the School District), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, as of June 30, 2007 and 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

March 12, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED**

This discussion and analysis of the Arcanum-Butler Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal years ended June 30, 2007 and June 30, 2006, within the limitations of the School District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2007 are as follows:

- Net assets increased \$12,331; less than one percent.
- General receipts accounted for \$7,319,595 in receipts or 82% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$1,623,131, or 18% of total receipts.
- The School District had \$8,930,395 in disbursements related to governmental activities; only \$1,623,131 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General receipts of \$7,319,595 were adequate to provide for these programs by \$12,331.
- The School District's General Fund is the only major fund. The General Fund had \$7,945,352 in receipts and \$7,949,335 in disbursements. The General Fund balance decreased by \$3,983 during fiscal year 2007.

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$180,491.
- General receipts accounted for \$7,043,403 in receipts or 82% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$1,576,120 or 18% of total receipts of \$8,619,523.
- The School District had \$8,439,032 in disbursements related to governmental activities; only \$1,576,120 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$7,043,403 were adequate to provide for these programs by \$180,491.
- The School District's General Fund is the only major fund. The General Fund had \$7,721,669 in receipts and \$7,574,332 in disbursements and other financing uses. The General Fund's balance increased \$147,337.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED
(Continued)**

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for the School District's programs. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of the program.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the condition of the School District's capital assets and the reliance on non-local financial resources for operations.

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation of non-instructional services and extracurricular activities. The School District does not have any business-type activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The fund financial statements provide a detailed view of the School District's operations and the basic services it provides. Fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's activities. The School District's significant funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's only major fund is the General Fund.

Governmental Funds

All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets comparing fiscal years ended for 2007, 2006 and 2005 on a cash basis:

Table 1			
Net Assets			
	2007	2006	2005
Assets			
Total Assets	\$1,655,944	\$1,643,613	\$1,463,122
Net Assets			
Restricted for:			
Capital Outlay	\$42	\$2,768	\$30
Set-Asides	536,220	367,671	173,991
Other Purposes	303,761	273,726	226,150
Unrestricted	815,921	999,448	1,062,951
Total Net Assets	\$1,655,944	\$1,643,613	\$1,463,122

Total net assets increased \$12,331 during fiscal year 2007, which is less than one percent. Net assets restricted for set-asides increased and unrestricted net assets decreased due to an increase in the amounts required to be set-aside for textbooks and instructional materials and capital improvements from June 30, 2006 to June 30, 2007.

Total net assets increased \$180,491 during fiscal year 2006, which represents more than a twelve percent. Net assets restricted for set-asides increased and unrestricted net assets decreased due to an increase in the amounts required to be set-aside for textbooks and instructional materials and capital improvements from June 30, 2005 to June 30, 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets in fiscal years 2007, 2006 and 2005; in addition to providing comparisons between years.

Table 2

	2007	2006	2005
Revenues			
Program Revenues:			
Charges for Services	\$930,044	\$913,176	\$737,300
Operating Grants, Contributions and Interest	682,092	645,423	619,342
Capital Grants and Contributions	10,995	17,521	11,415
Total Program Revenues	<u>1,623,131</u>	<u>1,576,120</u>	<u>1,368,057</u>
General Revenues:			
Property Taxes	1,894,628	1,837,786	1,809,519
Income Tax	847,843	732,608	714,246
Grants and Entitlements	4,447,433	4,399,726	4,435,643
Gifts and Donations	0	0	19,149
Investment Earnings	105,971	70,616	35,845
Miscellaneous	23,720	2,667	3,281
Total General Revenues	<u>7,319,595</u>	<u>7,043,403</u>	<u>7,017,683</u>
Total Revenues	<u>8,942,726</u>	<u>8,619,523</u>	<u>8,385,740</u>
Program Expenses			
Instruction:			
Regular	4,571,678	4,323,769	4,403,292
Special	758,425	752,838	734,495
Vocational	68,167	61,051	57,679
Support Services:			
Pupils	479,867	420,618	473,757
Instructional Staff	510,244	404,331	396,955
Board of Education	61,570	29,592	26,370
Administration	648,506	620,011	615,139
Fiscal	170,680	207,562	182,547
Operation and Maintenance of Plant	645,300	651,358	622,115
Pupil Transportation	368,190	383,933	356,051
Central	7,852	5,574	4,573
Operation of Non-Instructional Services	342,287	305,703	306,718
Extracurricular Activities	289,795	272,692	306,447
Capital Outlay	4,800	0	0
Refund of Prior Year Receipts	3,034	0	0
Total Expenses	<u>8,930,395</u>	<u>8,439,032</u>	<u>8,486,138</u>
Increase in Net Assets	<u>\$12,331</u>	<u>\$180,491</u>	<u>(\$100,398)</u>

Governmental Activities

During fiscal year 2007, the largest source of receipts for governmental activities was unrestricted grants and entitlements which accounted for about 50 percent of the total cash received. Property and income taxes accounted for an additional 31 percent of receipts. Instruction accounted for approximately 60 percent of total cash disbursements, with Regular Instruction making up the largest share at about 51 percent of total disbursements. Pupil and Instructional Staff support services accounted for about 11 percent of total disbursements. Board of Education, Administration, and Fiscal disbursements accounted for another 10 percent of disbursements. Operation and maintenance of plant disbursements were about 7 percent of total disbursements. Transportation accounted for about 4 percent of total disbursements and Extracurricular Activities accounted for about 3 percent of total disbursements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED
(Continued)**

During fiscal year 2006, the largest source of receipts for governmental activities was unrestricted grants and entitlements which accounted for 51 percent of the total cash received. Property taxes made up approximately 21.3% of revenues for governmental activities. The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. The School District currently has a .75% continuing income tax. This is approximately 8.5% of revenues for governmental activities. The School District received voter approval in February 2006 of an additional .75% 5-year income tax effective January 1, 2007, bringing the total income tax to 1.5%. Charges for services increased due to open enrollment, extracurricular activities, and food service, in addition to the new Preschool/Latchkey program. Investment earnings increased due to higher interest rates and increased cash balances. Disbursements decreased overall due to 4 eliminated teaching positions, along with reduced extended days.

Statement of Activities

If you look at the Statement of Activities, you will see that the first column lists the major activities of the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the School District that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by taxes, restricted State entitlements and investment earnings.

A comparative analysis between fiscal year 2007 to fiscal year 2006:

**Table 3
Governmental Activities**

	Total Cost Of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Instruction:				
Regular	\$4,571,678	\$4,054,719	\$4,323,769	\$3,814,750
Special	758,425	434,886	752,838	408,182
Vocational	68,167	49,631	61,051	42,605
Support Services:				
Pupils	479,867	266,894	420,618	266,339
Instructional Staff	510,244	410,549	404,331	313,927
Board of Education	61,570	61,570	29,592	29,592
Administration	648,506	648,506	620,011	620,011
Fiscal	170,680	170,680	207,562	207,562
Operation and Maintenance of Plant	645,300	640,621	651,358	633,104
Pupil Transportation	368,190	354,597	383,933	376,171
Central	7,852	2,852	5,574	574
Operation of Non-Instructional Services	342,287	29,507	305,703	18,970
Extracurricular Activities	289,795	174,418	272,692	131,125
Capital Outlay	4,800	4,800		
Refund of Prior Year Receipts	3,034	3,034		
Total	\$8,930,395	\$7,307,264	\$8,439,032	\$6,862,912

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
UNAUDITED
(Continued)**

Charges for services and operating grants of about 18 percent of total cash receipts were received and used to fund the expenses of the School District. The remaining 82 percent of cash receipts were from taxes, unrestricted State entitlements, investment earnings and miscellaneous receipts. The School District relies on these receipts to furnish the services it provides to students.

A comparative analysis between fiscal year 2006 to fiscal year 2005:

**Table 3
Governmental Activities**

	<u>Total Cost of Services 2006</u>	<u>Net Cost of Services 2006</u>	<u>Total Cost of Services 2005</u>	<u>Net Cost of Services 2005</u>
Instruction:				
Regular	\$4,323,769	\$3,814,750	\$4,403,292	\$3,981,793
Special	752,838	408,182	734,495	449,855
Vocational	61,051	42,605	57,679	38,949
Support Services:				
Pupil	420,618	266,339	473,757	288,196
Instructional Staff	404,331	313,927	396,955	374,576
Board of Education	29,592	29,592	26,370	26,370
Administration	620,011	620,011	615,139	615,139
Fiscal	207,562	207,562	182,547	182,547
Operation and Maintenance of Plant	651,358	633,104	622,115	609,075
Pupil Transportation	383,933	376,171	356,051	344,636
Central	5,574	574	4,573	(427)
Operation of Non-Instructional Services	305,703	18,970	306,718	8,656
Extracurricular Activities	272,692	131,125	306,447	198,716
Total	<u><u>\$8,439,032</u></u>	<u><u>\$6,862,912</u></u>	<u><u>\$8,486,138</u></u>	<u><u>\$7,118,081</u></u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2006, approximately 83% of instruction activities were supported through taxes and other general revenues.

The School District's Funds

During fiscal year 2007, the School District's only major fund is the General Fund. All of the governmental funds had total receipts of \$8,942,726 and total disbursements of \$8,930,395. At the end of fiscal year 2007, unreserved fund balance of the General Fund was \$562,418. The greatest change within the funds occurred in the other governmental funds which had an increase of \$16,314 in fund balance.

During fiscal year 2006, the School District's only major fund is the General Fund. All governmental funds had total receipts of \$8,619,523 and disbursements of \$8,439,032. The General Fund had an increase in fund balance of \$147,337 due to a combination of factors including 4 eliminated teaching positions despite less state funding and an increase in expenses including health care, diesel fuel, natural gas, and maintenance to the buildings.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007
(UNAUDITED)**

Major Funds Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The School District's budget is adopted on a line item basis. The Board of Education adopts the budget at the fund and function level (i.e., General Fund – Regular Instruction).

During the course of fiscal 2007, the School District amended its General Fund budget. The General Fund, budget basis receipts without other financing sources were \$7,938,965, above original estimates of \$7,808,454. The \$130,511 difference was mainly due to a slight turnaround in the economy which affected income tax receipts and an increase in interest due to higher interest rates and better than expected preschool enrollment. The School District's ending unobligated General Fund balance was \$1,126,784.

During the course of fiscal 2006, the School District amended its General Fund budget. The General Fund, budget basis receipts without other financing sources were \$7,721,669, above original estimates of \$7,562,285. The \$159,384 difference was mainly due to a slight turnaround in the economy which affected income tax receipts, interest revenue increasing due to higher interest rates and higher invested balances, and better than expected preschool enrollment. The School District's ending unobligated General Fund balance was \$1,260,088.

Capital Assets

The School District tracks its capital assets on the State EIS system.

Current Financial Issues and Concerns

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Matt Huffman, Treasurer, Arcanum-Butler Local School District, 2 Weisenbarger Court, Arcanum, OH 45304.

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

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,644,956
Cash and Cash Equivalents with Fiscal Agent	10,988
Total Assets	1,655,944
 Net Assets	
Restricted for:	
Capital Outlay	42
Set-Asides	536,220
Other Purposes	303,761
Unrestricted	815,921
Total Net Assets	\$1,655,944

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants Contributions and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$4,571,678	\$455,313	\$61,646		(\$4,054,719)
Special	758,425	58,388	265,151		(434,886)
Vocational	68,167		18,536		(49,631)
Support Services:					
Pupil	479,867		212,973		(266,894)
Instructional Staff	510,244	70,922	28,773		(410,549)
Board of Education	61,570				(61,570)
Administration	648,506				(648,506)
Fiscal	170,680				(170,680)
Operation and Maintenance of Plant	645,300		4,679		(640,621)
Pupil Transportation	368,190	2,598		\$10,995	(354,597)
Central	7,852		5,000		(2,852)
Operation of Non-Instructional Services	342,287	235,531	77,249		(29,507)
Extracurricular Activities	289,795	107,292	8,085		(174,418)
Capital Outlay	4,800				(4,800)
Refund of Prior Year Receipts	3,034				(3,034)
Totals	<u>\$8,930,395</u>	<u>\$930,044</u>	<u>\$682,092</u>	<u>\$10,995</u>	<u>(7,307,264)</u>
General Receipts					
					1,894,628
Property Taxes Levied for General Purposes					847,843
Income Taxes					
Grants and Entitlements not Restricted to Specific Programs					4,447,433
Interest					105,971
Miscellaneous					23,720
Total General Receipts					<u>7,319,595</u>
Change in Net Assets					12,331
Net Assets Beginning of Year					<u>1,643,613</u>
Net Assets End of Year					<u>\$1,655,944</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$815,921	\$264,660	\$1,080,581
Cash and Cash Equivalents with Fiscal Agent		10,988	10,988
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	564,375		564,375
Total Assets	<u>\$1,380,296</u>	<u>\$275,648</u>	<u>\$1,655,944</u>
Fund Balances			
Reserved for Encumbrances	253,503	14,812	268,315
Reserved for Textbooks and Instructional Materials	198,934		198,934
Reserved for Capital Improvement	337,286		337,286
Reserved for School Bus Purchase	28,155		28,155
Unreserved:			
Undesignated, Reported in:			
General Fund	562,418		562,418
Special Revenue Funds		260,794	260,794
Debt Service Fund			
Capital Projects Funds		42	42
Total Fund Balances	<u>\$1,380,296</u>	<u>\$275,648</u>	<u>\$1,655,944</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$1,894,628		\$1,894,628
Income Tax	847,843		847,843
Intergovernmental	4,632,850	\$490,989	5,123,839
Interest	105,971	4,476	110,447
Tuition and Fees	436,560	120,153	556,713
Customer Sales and Service		235,531	235,531
Extracurricular Activities		137,800	137,800
Contributions and Donations		12,205	12,205
Rent	13,742		13,742
Miscellaneous	7,371		7,371
Total Receipts	7,938,965	1,001,154	8,940,119
Disbursements			
Current:			
Instruction:			
Regular	4,459,124	112,554	4,571,678
Special	647,433	110,992	758,425
Vocational	67,060	1,107	68,167
Support Services:			
Pupil	267,792	212,075	479,867
Instructional Staff	422,985	87,259	510,244
Board of Education	61,570		61,570
Administration	648,506		648,506
Fiscal	170,680		170,680
Operation and Maintenance of Plant	642,621	2,679	645,300
Pupil Transportation	368,190		368,190
Central	3,460	4,392	7,852
Operation of Non-instructional Activities	474	341,813	342,287
Extracurricular Activities	184,340	105,455	289,795
Capital Outlay	4,800		4,800
Total Disbursements	7,949,035	978,326	8,927,361
Excess of Receipts Over (Under) Disbursements	(10,070)	22,828	12,758
Other Financing Sources (Uses)			
Advances In	3,780		3,780
Advances Out		(3,780)	(3,780)
Proceeds from Sale of Capital Assets	2,250		2,250
Refund of Prior Year Expenditures	357		357
Refund of Prior Year Receipts	(300)	(2,734)	(3,034)
Total Other Financing Sources(Uses)	6,087	(6,514)	(427)
Net Change in Fund Balances	(3,983)	16,314	12,331
Fund Balances Beginning of Year	1,384,279	259,334	1,643,613
Fund Balances End of Year	\$1,380,296	\$275,648	\$1,655,944

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$1,867,678	\$1,867,678	\$1,894,628	\$26,950
Income Taxes	794,880	844,880	847,843	2,963
Intergovernmental	4,650,000	4,518,600	4,632,850	114,250
Tuition and Fees	412,074	432,074	436,560	4,486
Interest	68,043	93,043	105,971	12,928
Rent	14,179	14,179	13,742	(437)
Miscellaneous	1,600	4,600	7,371	2,771
Total Revenues	<u>7,808,454</u>	<u>7,775,054</u>	<u>7,938,965</u>	<u>163,911</u>
Expenditures				
Current:				
Instruction:				
Regular	4,612,754	4,493,959	4,424,536	69,423
Special	674,605	676,385	660,412	15,973
Vocational	66,002	67,077	67,060	17
Other	50,435	54,117	47,034	7,083
Support Services:				
Pupil	316,065	317,325	275,959	41,366
Instructional Staff	373,700	435,714	434,477	1,237
Board of Education	66,657	66,657	63,794	2,863
Administration	663,191	662,168	655,656	6,512
Fiscal	223,071	223,071	211,574	11,497
Operation and Maintenance of Plant	723,281	738,825	733,682	5,143
Pupil Transportation	414,473	421,105	417,373	3,732
Central	3,495	3,495	3,460	35
Extracurricular Activities	169,450	185,921	184,340	1,581
Operation of Non-Instructional Services	575	575	474	101
Capital Outlay		16,000	16,000	
Total Expenditures	<u>8,357,754</u>	<u>8,362,394</u>	<u>8,195,831</u>	<u>166,563</u>
Excess of Revenues Over (Under) Expenditures	<u>(549,300)</u>	<u>(587,340)</u>	<u>(256,866)</u>	<u>330,474</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets			2,250	2,250
Refund of Prior Year Receipts	(3,600)	(3,600)	(300)	3,300
Refund of Prior Year Expenditures	22,000	250	357	107
Advances In	3,780	3,780	3,780	
Total Other Financing Sources	<u>22,180</u>	<u>430</u>	<u>6,087</u>	<u>5,657</u>
Net Change in Fund Balance	(527,120)	(586,910)	(250,779)	336,131
Fund Balance Beginning of Year	1,260,088	1,260,088	1,260,088	
Prior Year Encumbrances Appropriated	117,475	117,475	117,475	
Fund Balance End of Year	<u>\$850,443</u>	<u>\$790,653</u>	<u>\$1,126,784</u>	<u>\$336,131</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$27,345	\$19,916
Investments in Segregated Accounts	4,192	
Total Assets	\$31,537	\$19,916
Liabilities		
Due to Students		\$19,916
Net Assets		
Held in Trust for Scholarships	\$31,537	
	\$31,537	

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$15,525
Interest	127
Miscellaneous	4,265
	<u>\$19,917</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>11,481</u>
Change in Net Assets	8,436
Net Assets - Beginning of Year	<u>23,101</u>
Net Assets - End of Year	<u><u>\$31,537</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,635,420
Cash and Cash Equivalents with Fiscal Agents	8,193
Total Assets	<u><u>1,643,613</u></u>
Net Assets	
Restricted for:	
Capital Projects	2,768
Set-Asides	367,671
Other Purposes	273,726
Unrestricted	999,448
Total Net Assets	<u><u>\$1,643,613</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets	
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$4,323,769	\$454,755	\$54,264	(\$3,814,750)	
Special	752,838	37,638	307,018	(408,182)	
Vocational	61,051		18,446	(42,605)	
Support Services:					
Pupil	420,618		154,279	(266,339)	
Instructional Staff	404,331	37,504	41,124	\$11,776	
Board of Education	29,592			(29,592)	
Administration	620,011			(620,011)	
Fiscal	207,562			(207,562)	
Operation and Maintenance of Plant	651,358	14,179	4,075	(633,104)	
Pupil Transportation	383,933	1,459	558	5,745	
Central	5,574		5,000	(574)	
Operation of Non-Instructional Services	305,703	226,074	60,659	(18,970)	
Extracurricular Activities	272,692	141,567		(131,125)	
Totals	<u>\$8,439,032</u>	<u>\$913,176</u>	<u>\$645,423</u>	<u>\$17,521</u>	<u>(6,862,912)</u>
General Receipts					
Property Taxes Levied for General Purposes				1,837,786	
Income Tax				732,608	
Grants and Entitlements not Restricted to Specific Programs				4,399,726	
Investment Earnings				70,616	
Miscellaneous				2,667	
Total General Receipts				<u>7,043,403</u>	
Change in Net Assets				180,491	
Net Assets Beginning of Year				<u>1,463,122</u>	
Net Assets End of Year				<u>\$1,643,613</u>	

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$999,448	\$251,141	\$1,250,589
Cash and Cash Equivalents with Fiscal Agent		8,193	8,193
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	384,831		384,831
Total Assets	<u>\$1,384,279</u>	<u>\$259,334</u>	<u>\$1,643,613</u>
Fund Balances			
Reserved for Encumbrances	117,476	33,553	151,029
Reserved for Capital Improvements	240,402		240,402
Reserved for Textbooks	127,269		127,269
Reserved for Bus Purchase	17,160		17,160
Unreserved, Undesignated, Reported in:			
General Fund	881,972		881,972
Special Revenue Funds		223,013	223,013
Capital Projects Fund		2,768	2,768
Total Fund Balances	<u>\$1,384,279</u>	<u>\$259,334</u>	<u>\$1,643,613</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts			
Property Taxes	\$1,837,786		\$1,837,786
Income Taxes	732,608		732,608
Intergovernmental	4,641,760	\$416,945	5,058,705
Investment Earnings	70,616	3,890	74,506
Charges for Services		223,869	223,869
Tuition and Fees	418,314	85,893	504,207
Rent	14,179		14,179
Gifts and Donations	75	15,007	15,082
Extracurricular Activities		152,250	152,250
Miscellaneous	6,331		6,331
Total Receipts	<u>7,721,669</u>	<u>897,854</u>	<u>8,619,523</u>
Disbursements			
Current:			
Instruction:			
Regular	4,200,664	123,105	4,323,769
Special	646,452	106,386	752,838
Vocational	60,005	1,046	61,051
Support Services:			
Pupil	267,533	153,085	420,618
Instructional Staff	337,126	67,205	404,331
Board of Education	29,592		29,592
Administration	620,011		620,011
Fiscal	207,562		207,562
Operation and Maintenance of Plant	647,358	4,000	651,358
Pupil Transportation	383,933		383,933
Central	23	5,551	5,574
Operation of Non-Instructional Services	519	305,184	305,703
Extracurricular Activities	169,774	102,918	272,692
Total Disbursements	<u>7,570,552</u>	<u>868,480</u>	<u>8,439,032</u>
Excess of Receipts Under Disbursements	<u>151,117</u>	<u>29,374</u>	<u>180,491</u>
Other Financing Sources and Uses			
Advances In		3,780	3,780
Advances Out	(3,780)		(3,780)
Total Other Financing Sources and Uses	<u>(3,780)</u>	<u>3,780</u>	
Net Change in Fund Balance	147,337	33,154	180,491
Fund Balances Beginning of Year	<u>1,236,942</u>	<u>226,180</u>	<u>1,463,122</u>
Fund Balances End of Year	<u>\$1,384,279</u>	<u>\$259,334</u>	<u>\$1,643,613</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Property Taxes	\$1,862,472	\$1,862,472	\$1,837,786	(\$24,686)
Income Tax	721,388	721,388	732,608	11,220
Intergovernmental	4,571,872	4,473,673	4,641,760	168,087
Interest	30,000	30,000	70,616	40,616
Tuition and Fees	362,953	362,953	418,314	55,361
Rent	12,000	12,000	14,179	2,179
Gifts and Donations			75	75
Miscellaneous	1,600	1,600	6,331	4,731
Total Revenues	<u>7,562,285</u>	<u>7,464,086</u>	<u>7,721,669</u>	<u>257,583</u>
Disbursements				
Current:				
Instruction:				
Regular	4,349,419	4,374,721	4,214,224	160,497
Special	661,570	685,975	662,442	23,533
Vocational	57,902	64,549	64,547	2
Other	38,137	38,137	31,282	6,855
Support Services:				
Pupils	288,760	289,625	280,363	9,262
Instructional Staff	399,096	399,099	347,299	51,800
Board of Education	34,182	34,182	29,794	4,388
Administration	650,180	651,791	628,337	23,454
Fiscal	207,241	208,984	208,983	1
Operation and Maintenance of Plant	790,919	814,416	678,305	136,111
Pupil Transportation	378,231	399,576	399,576	
Central	20	23	23	
Operation of Non-Instructional Services		766	519	247
Extracurricular Activities	170,144	173,289	169,774	3,515
Total Disbursements	<u>8,025,801</u>	<u>8,135,133</u>	<u>7,715,468</u>	<u>419,665</u>
Excess of Revenues Over (Under) Disbursements	<u>(463,516)</u>	<u>(671,047)</u>	<u>6,201</u>	<u>677,248</u>
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	(600)	(3,415)	(3,415)	
Advances Out			(3,780)	(3,780)
Refund of Prior Year Expenditures	22,000	22,000	27,882	5,882
Total Other Financing Sources (Uses)	<u>21,400</u>	<u>18,585</u>	<u>20,687</u>	<u>2,102</u>
Net Change in Fund Balances	(442,116)	(652,462)	26,888	679,350
Fund Balances at Beginning of Year	1,103,578	1,103,578	1,103,578	
Prior Year Encumbrances Appropriated	129,622	129,622	129,622	
Fund Balances at End of Year	<u>\$791,084</u>	<u>\$580,738</u>	<u>\$1,260,088</u>	<u>\$679,350</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$23,101	\$24,705
Net Assets		
Restricted for Students		24,705
Held in Trust for Scholarships	23,101	
Total Net Assets	\$23,101	\$24,705

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Gifts and Donations	\$862
Interest	181
Total Additions	<u>1,043</u>
Deductions	
Other	<u>3,204</u>
Changes in Net Assets	(2,161)
Net Assets Beginning of Year	<u>25,262</u>
Net Assets End of Year	<u><u>\$23,101</u></u>

See accompanying notes to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006**

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 the 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 43 non-certificated employees, 76 certified full-time teaching personnel and 7 administrative employees who provide services to 1,033 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, or for which the School District is not financially accountable but the nature and significance of the School District's relationship with the separate organization is such that it is required to be presented as a component unit. 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. Organizations for which the School District is not financially accountable are component units of the School District if (1) economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the School District or its constituents, (2) the School District is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the organization and (3) the economic resources received or held by the organization are significant to the School District. Arcanum-Butler Local 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 Notes 10, 11 and 12 to the basic financial statements. These organizations are:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Jointly Governed Organizations:

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

Insurance Purchasing Pool:

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

Related Organization:

Arcanum Public Library

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. 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. The School District classifies each fund as either governmental or fiduciary.

1. Governmental Fund Types

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following is the School District's major governmental fund:

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.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds:

Fiduciary funds account for cash and investments where the School District is acting as trustee or fiscal agent for other entities or individuals. The School District's fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student activities' cash.

B. Basis of Presentation

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

1. Government-wide Financial Statement of Net Assets and Statement of Activities:

These statements display information about the School District as a whole, except for fiduciary funds. The statements report governmental activities separately from business-type activities. The School District, however, does not have any business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the School District's general receipts.

2. Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when the liability is incurred. Any such modification made by the School District is described in the appropriate section in this note.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund and two digit function level for the General Fund and the fund level for all other funds.

The certificate of estimated resources may be amended during the year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

E. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds except the principal amount of the private purpose trust funds 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 financial statements. Investments of the private purpose trust funds are presented as "Investments in Segregated Accounts" on the financial statements. The balance of the grant activity administered by the fiscal agent is presented on the Statement of Net Assets as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits of the Darke County Educational Service Center.

The School District invested in a non-negotiable certificate of deposit and STAR Ohio during fiscal years 2007 and 2006. 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.

The School District values investments and cash equivalents at cost.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2007 was \$105,971, including \$60,314 assigned from other School District funds. While interest receipts credited to the General Fund during fiscal year 2006 was \$70,616, including \$11,884 assigned from other School District funds.

For presentation on the financial statements and in the notes to the basic financial statements, investments with an original maturity of three months or less and those purchased from the cash management pool are deemed cash equivalents. Investments with an initial maturity of more than three months and not purchased from the pool are reported as investments.

F. Restricted Assets

Cash and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such restraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by law through constitutional provisions or other enabling legislation. Restricted cash in the General Fund include amounts required by State Statute to be set aside for the acquisition and construction of capital improvements and for the purchase of textbooks and instructional materials; in addition to the school bus purchase allowance unspent balance at the end of the fiscal.

G. Inventory

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

H. Prepaid Items

On the cash-basis of accounting, payments made to vendors for services that will benefit periods beyond the fiscal year end, are recorded as disbursements when made.

I. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

K. Fund Balance Reserves

The School District reserves portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Unreserved fund balance indicated that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, capital improvements, textbooks and instructional materials, and school bus purchase. The reserve for capital improvements and textbooks and instructional materials represents money required to be set-aside by state Statute for the acquisition and construction of capital improvements and for the purchase of textbooks and instructional materials.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The School District had no net assets restricted by enabling legislation at June 30, 2006 and 2007.

M. Interfund Activity

Permanent non-exchange flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds on the fund financial statements and eliminated on the district wide statements. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

3. 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. Bond and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, Passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasurer's investment pool (STAR Ohio).

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

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

At June 30, 2007 and June 30, 2006, the School District had \$800 in undeposited cash on hand.

The School District had "Cash and Cash Equivalents with Fiscal Agent" as of June 30, 2007 of \$10,988 and June 30, 2006 of \$8,193. The money is held by the Darke County Education Service Center, which is the fiscal agent for a couple of federal programs for several Darke County School Districts. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Emiko Augsburg, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

At June 30, 2007, the carrying amount of the School District's deposits was \$43,894 and the bank balance was \$67,234. All of the School District's deposits were insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007.

At June 30, 2006, the carrying amount of the School District's deposits was \$39,282 and the bank balance was \$64,247. All of the School District's deposits were insured by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006.

B. Investments

The School District's only investment was in STAR Ohio in the amount of \$1,651,715 at June 30, 2007 and \$1,643,144 at June 30, 2006. STAR Ohio is an investment pool and has various interest rates.

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements of ongoing operations.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond stating "All security transactions, including collateral for repurchase agreements, entered into by the District are conducted on a delivery-versus-payment basis. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. Securities are pledged at the Federal Reserve Bank to collateralize all repurchase agreements with financial institutions. Pledged collateral is only released by the District after verification that the principal and interest have been credited to the District's account."

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District's entire investments are in STAR Ohio.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

4. 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 (used in business) located in the School District. Real property tax receipts received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 receipts received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006, and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of December 31, 2006. The tangible personal property tax is being phased out over a four-year period, with certain tangible property used in manufacturing immediately exempt from the tax. Tangible personal property is currently assessed at 18.75 percent of true value. 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2007 was \$208,968 in the General Fund.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 94,986,690	91%	\$ 96,536,670	92%
Public Utility Personal	6,366,570	6	6,283,480	6
Tangible Personal Property	2,929,441	3	2,230,890	2
Total	<u>\$104,282,701</u>	100%	<u>\$105,051,040</u>	100%

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

4. PROPERTY TAXES (Continued)

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

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$89,568,270	91%	\$ 94,986,690	92%
Public Utility Personal	6,400,350	7	6,366,570	6
Tangible Personal Property	2,421,910	2	2,929,441	3
Total	<u>\$98,390,530</u>	<u>100%</u>	<u>\$104,282,701</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$26.18		\$26.18	

5. INCOME TAX

As of June 30, 2007, 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 credited to the General Fund in fiscal years 2007 and 2006 was \$847,843 and \$732,608, respectively. In February 2006, voters passed a three-fourths of one percent additional income tax levy to be used for general operations, effective January 1, 2007, for five years.

6. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) and the expenditure adjustment represents amounts incorrectly recorded which were adjusted on the cash basis. This amount is included as receipts on the cash basis operating statement.

The following table reconciles the cash basis statements to the budgetary basis statements for the General Fund for the fiscal year ended June 30, 2007:

Net Change in Fund Balance	
Cash Basis	(\$3,983)
Unrecorded cash adjustment	6,707
Adjustment for Encumbrances	<u>(253,503)</u>
Budgetary Basis	<u>(\$250,779)</u>

The following table reconciles the cash basis statements to the budgetary basis statements for the General Fund for the fiscal year ended June 30, 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

6. BUDGETARY BASIS OF ACCOUNTING (Continued)

	Net Change in Fund Balance
Cash Basis	\$147,337
Unrecorded Cash Fiscal Year 2006	(6,716)
Unrecorded Cash Fiscal Year 2005	3,743
Adjustment for Encumbrances	<u>(117,476)</u>
Budget Basis	<u>\$ 26,888</u>

7. 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. The School District contracted with the Southwest Ohio Educational Purchasing Council for property and liability coverage.

Buildings and Contents – replacement cost (\$1,000 deductible)	\$21,996,645
Flood & Earthquake	1,000,000
Automobile Liability	1,000,000
Uninsured Motorist	1,000,000
School Board Legal Liability (\$5,000 deductible)	1,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate per member	3,000,000
Sexual abuse and molestation	
Per Occurrence	1,000,000
Aggregate per member	1,000,000
Errors and Omissions	1,000,000
Employer's Liability and Stop Gap	
Per Occurrence	1,000,000
Total per year	1,000,000
Employee Benefit Liability	
Per Occurrence	1,000,000
Aggregate per member	3,000,000
Public Employee blanket bond, money and securities, forgery	500,000
Umbrella Liability	
Aggregate Limit	5,000,000

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). 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 percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" 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. Employee Medical Benefits

The School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 11). 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

8. 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 toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Plan members are required to contribute 10 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 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, 2007, 2006 and 2005 were \$100,189, \$94,481, and \$90,898 respectively; 46 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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 toll free 1-888-227-7877 or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries; compared to 9.3 percent for the fiscal year ended June 30, 2006. For the fiscal years ended June 30, 2007 and June 30, 2006, the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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, 2007, 2006, and 2005 were \$529,527, \$501,126 and \$526,457 respectively; 82 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$1,431 made by the School District and \$4,785 made by the plan members.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

9. POST-EMPLOYMENT 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, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$40,733 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

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

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll for fiscal year 2007, and 3.42 for fiscal year 2006. . 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. The minimum pay was established at \$35,800 for fiscal year 2007 and \$27,400 for fiscal year 2006. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$44,852 and during the 2006 fiscal year equaled \$47,701.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006, (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently eligible to receive health care benefits.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Dayton Educational Cooperative Association

The 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. The School District paid MDECA \$44,109 for computer services provided during fiscal year 2007 and \$44,510 during fiscal year 2006. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

B. Southwestern Ohio Educational Purchasing Council

The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council 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 shall forfeit 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. The School District paid in fees to SOEPC \$729 during fiscal year 2007 and \$752 during fiscal year 2006. 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.

C. 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 in the State-assigned SOITA service area. 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
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the 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. The School District paid SOITA \$1,012 during fiscal year 2007 and \$1,679 during fiscal year 2006. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

11. INSURANCE PURCHASING POOLS

A. 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). The GRP's business and affairs are conducted by an eleven member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating School Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The Educational Service Center 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 EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating educational service center or school district serves on the general assembly. Each year, the participating educational service centers and school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

12. RELATED ORGANIZATION

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 the Board of Trustees. The School District had no financial transactions with the Arcanum Public Library during fiscal year 2007. Financial information can be obtained from the Arcanum Public Library, Roberta J. Brown, Clerk/Treasurer, at 101 North Street, Arcanum, Ohio 45304.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

13. 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 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 textbooks and instructional materials, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

Fiscal Year 2007	Textbooks and Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2006	\$127,269	\$240,402
Current Year Set-aside Requirement	148,253	148,253
Qualifying Disbursements	(76,588)	(51,369)
Set-aside Balances Carried Forward to Future Fiscal Years	<u>\$198,934</u>	<u>\$337,286</u>
Set-aside Reserve Balances as of June 30, 2007	<u>\$198,934</u>	<u>\$337,286</u>
Fiscal Year 2006	Textbooks and Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	\$48,169	\$125,822
Current Year Set-aside Requirement	150,728	150,728
Qualifying Disbursements	(71,628)	(36,148)
Set-aside Balances Carried Forward to Future Fiscal Years	<u>\$127,269</u>	<u>\$240,402</u>
Set-aside Reserve Balances as of June 30, 2006	<u>\$127,269</u>	<u>\$240,402</u>

14. CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement 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 fiscal years ended June 30, 2007 or June 30, 2006.

15. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006
(Continued)**

16. SUBSEQUENT EVENTS

The School District has entered into an agreement with the Ohio School Facilities Commission (OSFC) to help with the construction of a new school. The OSFC will fund 64% percent of the construction with the School District being responsible for the remaining 36% local share of construction costs. On December 20, 2007, the School District issued a \$13,040,000 bond anticipation note for the purpose of financing the local share of the construction. The note will be paid with bond proceeds when they are issued. The bonds will be paid with property tax revenue from a bond levy approved by the voters in November 2007.



Mary Taylor, CPA

Auditor of State

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

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 governmental activities, each major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, (the School District), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 12, 2008, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We also noted certain internal control matters that we reported to the School District's management in a separate letter dated March 12, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters that we reported to the School District's management in a separate letter dated March 12, 2008.

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

March 12, 2008

**ARCANUM BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements for fiscal 2007 and 2006 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their annual financial reports in accordance with generally accepted accounting principles.

Officials Response:

On September 20, 2004, the Board of Education unanimously agreed to approve filing on GASB 34 cash basis year-end report beginning with the fiscal year 2004 filing period. Due to the continuous pressure to minimize cost under the current school funding system, the Board of Education has agreed that costs associated with generating and auditing the reports on a GAAP basis far exceeds the benefits received by filing GAAP financial reports.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC 117.38 and OAC 117-2-03 (B) – failure to prepare and file GAAP basis annual financial report.	No	Repeated as finding 2007-001



Mary Taylor, CPA
Auditor of State

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
APRIL 22, 2008**