



Dave Yost • Auditor of State

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

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DARKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Arcanum-Butler Local School District
Darke County
2011 Trojan Avenue
Arcanum, Ohio 45304

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, Ohio (the School District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, Ohio, as of June 30, 2016 and 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in the 2015 notes to the financial statements, Note 20, the School District restated the July 1, 2014 fund balance for the general fund and other governmental funds. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 7, 2017

Arcanum-Butler Local School District
Darke County, Ohio

Statement of Net Position - Cash Basis
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$10,389,501</u>
<i>Total Assets</i>	<u><u>\$10,389,501</u></u>
Net Position	
Restricted for:	
Debt Service	\$1,098,422
Capital Outlay	4,028,246
Set-Asides	2,250
Other Purposes	669,552
Unrestricted	<u>4,591,031</u>
<i>Total Net Position</i>	<u><u>\$10,389,501</u></u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District

Darke County, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016*

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$5,353,666	\$1,148,059	\$51,847		(\$4,153,760)
Special	1,371,339	45,898	368,155		(957,286)
Vocational	88,026		47,040		(40,986)
Other	47,806				(47,806)
Support Services:					
Pupil	281,601				(281,601)
Instructional Staff	619,322		18,211		(601,111)
Board of Education	70,703				(70,703)
Administration	778,656				(778,656)
Fiscal	284,383				(284,383)
Operation and Maintenance of Plant	844,047				(844,047)
Pupil Transportation	575,191		5,825		(569,366)
Central	568				(568)
Operation of Non-Instructional Services	276,938	149,558	154,697		27,317
Extracurricular Activities	446,136	153,327	27,040		(265,769)
Capital Outlay	2,536,847			156,482	(2,380,365)
Principal Retirement	422,042				(422,042)
Interest and Fiscal Charges	281,579				(281,579)
Issuance Costs	88,438				(88,438)
Discount on Refunding Bonds	114,862				(114,862)
Payment to Refunded Bond Escrow Agent	11,950,016				(11,950,016)
Totals	\$26,432,166	\$1,496,842	\$672,815	\$156,482	(\$24,106,027)
General Receipts					
					2,456,520
					815,023
					46,618
					1,830,045
					6,052,160
					39,864
					55,431
					12,153,316
					<u>23,448,977</u>
					2,250,000
					<u>1,592,950</u>
					<u>8,796,551</u>
					<u>\$10,389,501</u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$4,591,026	\$1,098,422	\$3,849,639	\$848,164	\$10,387,251
Restricted Asset:					
Equity in Pooled Cash and Cash Equivalents	<u>2,250</u>				<u>2,250</u>
<i>Total Assets</i>	<u><u>\$4,593,276</u></u>	<u><u>\$1,098,422</u></u>	<u><u>\$3,849,639</u></u>	<u><u>\$848,164</u></u>	<u><u>\$10,389,501</u></u>
Fund Balances					
Restricted	2,250	1,098,422	3,849,639	848,159	5,798,470
Committed				5	5
Assigned	346,390				346,390
Unassigned	<u>4,244,636</u>				<u>4,244,636</u>
<i>Total Fund Balances</i>	<u><u>\$4,593,276</u></u>	<u><u>\$1,098,422</u></u>	<u><u>\$3,849,639</u></u>	<u><u>\$848,164</u></u>	<u><u>\$10,389,501</u></u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$2,456,520	\$815,023		\$46,618	\$3,318,161
Income Tax	1,830,045				1,830,045
Intergovernmental	5,943,273	128,378	146,251	567,014	6,784,916
Interest	39,864		7,724	3,523	51,111
Tuition and Fees	1,089,367			83,076	1,172,443
Customer Sales and Service				149,558	149,558
Extracurricular Activities	21,514			153,327	174,841
Contributions and Donations	40,228			18,057	58,285
Rent	400				400
Miscellaneous	19,122				19,122
<i>Total Receipts</i>	<u>11,440,333</u>	<u>943,401</u>	<u>153,975</u>	<u>1,021,173</u>	<u>13,558,882</u>
Disbursements					
Current:					
Instruction:					
Regular	5,213,000			140,666	5,353,666
Special	1,043,321			328,018	1,371,339
Vocational	88,026				88,026
Other	47,806				47,806
Support Services:					
Pupil	281,601				281,601
Instructional Staff	596,991			22,331	619,322
Board of Education	70,703				70,703
Administration	777,918	698		40	778,656
Fiscal	264,833	18,497		1,050	284,380
Operation and Maintenance of Plant	844,047				844,047
Pupil Transportation	575,191				575,191
Central	568				568
Operation of Non-instructional Activities	594			276,344	276,938
Extracurricular Activities	269,621			176,515	446,136
Capital Outlay	270,406		2,064,066	202,375	2,536,847
Principal	82,042	340,000			422,042
Interest	41,195	240,384			281,579
Issuance Costs		88,438			88,438
<i>Total Disbursements</i>	<u>10,467,863</u>	<u>688,017</u>	<u>2,064,066</u>	<u>1,147,339</u>	<u>14,367,285</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>972,470</u>	<u>255,384</u>	<u>(1,910,091)</u>	<u>(126,166)</u>	<u>(808,403)</u>
Other Financing Sources (Uses)					
Proceeds of Refunding Bonds		10,769,991			10,769,991
Premium on Refunding Bonds		1,383,325			1,383,325
Payment to Refunding Bond Escrow Agent		(11,950,016)			(11,950,016)
Discount on Refunding Bonds		(114,862)			(114,862)
Transfers In				28,768	28,768
Transfers Out	(28,768)				(28,768)
Advances In	10,012			3,283	13,295
Advances Out	(3,283)			(10,012)	(13,295)
Proceeds from Sale of Capital Assets	2,926				2,926
Refund of Prior Year Expenditures	59,989				59,989
<i>Total Other Financing Sources (Uses)</i>	<u>40,876</u>	<u>88,438</u>		<u>22,039</u>	<u>151,353</u>
Extraordinary Item					
Insurance Recoveries			2,250,000		2,250,000
<i>Net Change in Fund Balances</i>	1,013,346	343,822	339,909	(104,127)	1,592,950
<i>Fund Balances Beginning of Year</i>	3,579,930	754,600	3,509,730	952,291	8,796,551
<i>Fund Balances End of Year</i>	<u>\$4,593,276</u>	<u>\$1,098,422</u>	<u>\$3,849,639</u>	<u>\$848,164</u>	<u>\$10,389,501</u>

See accompanying notes to the basic financial statements

**Arcanum-Butler Local School District
Darke County, Ohio**

*Statement of Cash Receipts, Cash Disbursements and Changes
In Fund Cash Balance - Budget and Actual - Budgetary Basis
General Fund
For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$2,521,664	\$2,521,664	\$2,456,520	(\$65,144)
Income Taxes	1,790,000	1,790,000	1,830,045	40,045
Intergovernmental	5,991,750	5,991,750	5,943,273	(48,477)
Tuition and Fees	1,054,500	1,054,500	1,054,457	(43)
Interest	19,000	19,000	39,864	20,864
Rent			400	400
Gifts and Donations	12,000	12,000	17,087	5,087
Miscellaneous	23,500	23,500	19,122	(4,378)
<i>Total Revenues</i>	<u>11,412,414</u>	<u>11,412,414</u>	<u>11,360,768</u>	<u>(51,646)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,253,836	5,161,619	5,149,583	12,036
Special	997,800	1,053,048	1,053,050	(2)
Vocational	86,807	88,674	88,673	1
Other	79,214	54,601	54,601	
Support Services:				
Pupil	305,959	282,362	282,364	(2)
Instructional Staff	634,682	608,687	608,683	4
Board of Education	72,510	70,703	70,703	
Administration	772,549	782,903	782,464	439
Fiscal	262,765	265,466	265,466	
Business				
Operation and Maintenance of Plant	932,801	914,999	908,861	6,138
Pupil Transportation	632,201	587,273	587,271	2
Central	1,400	568	568	
Extracurricular Activities	227,881	304,497	304,499	(2)
Operation of Non-Instructional Services		593	591	2
Capital Outlay	404,647	354,318	354,319	(1)
Debt Service:				
Principal	82,042	82,042	82,042	
Interest	41,195	41,195	41,195	
<i>Total Expenditures</i>	<u>10,788,289</u>	<u>10,653,548</u>	<u>10,634,933</u>	<u>18,615</u>
<i>Excess of Revenues Over Expenditures</i>	<u>624,125</u>	<u>758,866</u>	<u>725,835</u>	<u>(33,031)</u>
Other Financing Sources (Uses)				
Transfers Out	(25,000)	(28,768)	(28,768)	
Advances In	10,012	10,012	10,012	
Advances Out	(7,500)	(3,283)	(3,283)	
Proceeds from Sale of Capital Assets			2,929	2,929
Refund of Prior Year Expenditures	8,000	8,000	59,989	51,989
<i>Total Other Financing Sources (Uses)</i>	<u>(14,488)</u>	<u>(14,039)</u>	<u>40,879</u>	<u>54,918</u>
<i>Net Change in Fund Balance</i>	609,637	744,827	766,714	21,887
<i>Fund Balance Beginning of Year</i>	3,379,029	3,379,029	3,379,029	
Prior Year Encumbrances Appropriated	76,129	76,129	76,129	
<i>Fund Balance End of Year</i>	<u>\$4,064,795</u>	<u>\$4,199,985</u>	<u>\$4,221,872</u>	<u>\$21,887</u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$30,583	\$32,239
Investments in Segregated Accounts	4,192	
<i>Total Assets</i>	<i>\$34,775</i>	<i>\$32,239</i>
Liabilities		
Due to Students		\$32,239
Net Position		
Held in Trust for Scholarships	\$34,775	

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
Additions	
Gifts and Contributions	\$9,066
Interest	63
	9,129
Deductions	
Payments in Accordance with Trust Agreements	6,753
Change in Net Position	2,376
Net Position - Beginning of Year	32,399
Net Position - End of Year	\$34,775

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 40 non-certificated employees, 71 certified full-time teaching personnel and 5 administrative employees who provide services to 1,098 students and other community members. The School District currently operates one building which houses all operations of the school.

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 District is financially accountable and for which a financial benefit or burden relationship exists. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District is financially accountable for an organization if an organization is fiscally dependent on the District and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on the District regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. Component units may also include organizations that do not otherwise meet the criteria for inclusion if it is determined that their exclusion would be misleading. 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 11, 12 and 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

Related Organization:

- Arcanum Public Library

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although Ohio Administrative Code Section 117-2-03(B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. 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.

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 are the School District's major governmental funds:

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.

Bond Retirement Fund – The Bond Retirement Fund accounts for property tax revenues and State exemption reimbursements collected for the repayment of general obligation bonded debt.

Classroom Facilities Fund – The Classroom Facilities Capital Projects Fund accounts for the receipts and expenditures associated with the State's share of the construction of the new school building.

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

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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

1. Government-wide Financial Statement of Net Position 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 position 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. 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Board of Education uses the fund and two digit function level within the General Fund and fund level for all other funds as its legal level of control.

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 School District invested in non-negotiable certificates of deposit, STAR Ohio, U. S. Treasury Bills, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank, mutual funds, and commercial paper during fiscal year 2016. 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 District values investments and cash equivalents at cost.

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 2016 were \$39,864. \$1,145 was assigned to the General Fund from other 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and investments in the General Fund are amounts restricted for bus purchases.

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 June 30, 2016, 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

Fund balance is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted fund balance is available.

Fund balance is reported as committed when the Board of Education of the School District has placed constraints on the use of resources by resolution.

Fund balance is reported as assigned when the Treasurer has encumbered or otherwise set aside resources not already committed to be used for a specific purpose.

Fund balance is reported as non-spendable when amounts cannot be spent because they are not in spendable form, or legally or contractually required to remain intact.

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

The School District applies committed resources first and then assigned resources when a disbursement is incurred for purposes which committed, assigned and unassigned fund balance is available.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Position

Net position is reported as restricted when there are limitations imposed on its 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 position restricted for other purposes includes 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 position is available.

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. CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2016, the School District has implemented GASB Statement No. 72, "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to fair value measurements. The implementation of GASB Statement No. 72 had no impact on net position as previously reported at June 30, 2015.

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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.

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.

The following information discloses the risks associated with the School District's deposits and investments as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

At June 30, 2016, the School District had \$1,300 in un-deposited cash on hand.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

At June 30, 2016, the book balance of the School District's deposits was \$4,274,586 and the bank balance was \$4,365,322.

Custodial Credit Risk

Of the School District's \$4,365,322 bank balance, \$346,045 was exposed to custodial credit risk as discussed below, while \$4,019,277 was covered by the Federal Deposit Insurance Corporation (FDIC). Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute.

B. Investments

As of June 30, 2016, the School District had the following investments:

<u>Investment</u>	<u>Amount</u>	<u>Maturity Date</u>
STAR Ohio	\$2,263,617	Various
U.S. Treasury Bill	999,901	07/23/15
U.S. Treasury Bill	499,954	07/21/16
Federal National Mortgage Association Note	154,150	10/26/17
Federal National Mortgage Association Note	283,644	02/08/18
Federal National Mortgage Association Note	89,910	04/30/18
Federal National Mortgage Association Note	200,000	02/26/21
Federal Home Loan Mortgage Corporation	119,990	10/29/18
Federal Home Loan Mortgage Corporation	240,000	05/26/21
Federal Farm Credit Bank	314,603	01/27/17
Federal Farm Credit Bank	239,299	11/15/17
Federal Farm Credit Bank	209,748	06/25/18
Government Agency Mutual Fund	172,204	Various
First American Treasury Obligations Mutual Fund	64,336	Various
Toyota Motor Credit Commercial Paper	164,373	07/25/16
Abbott Commercial Paper	164,900	07/29/16
	<u>\$6,180,629</u>	

Interest Rate Risk: State statute limits the maturity of investments to five years unless matched to a specific obligation or debt of the School District. The School District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. 37% of the District's investments at June 30, 2016 were in STAR Ohio, 24% were in U.S. Treasury Bills, 12% were in the Federal Farm Credit Bank, 12% were in the Federal National Mortgage Association, 6% were in the Federal Home Loan Mortgage Corporation, 5% were in commercial paper, and 4% were in mutual funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: State statute limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investment in STAR Ohio was rated AAAm by Standards & Poor's at June 30, 2016. The School District's investments in the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Farm Credit were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's at June 30, 2016. The School District's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1+ by Standard and Poor's at June 30, 2016.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 and No. 40 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$10,452,323	\$4,192
Petty cash	(1,300)	
Investments:		
STAR Ohio	(2,263,617)	2,263,617
U.S. Treasury Bills	(1,499,855)	1,499,855
Federal National Mortgage Association	(727,704)	727,704
Federal Home Loan Mortgage Corporation	(359,990)	359,990
Federal Farm Credit Bank	(763,650)	763,650
Government Agency Mutual Fund	(172,204)	172,204
First American Treasury Obligations Money Market Fund	(64,336)	64,336
Toyota Motor Credit Commercial Paper	(164,373)	164,373
Abbott Commercial Paper	(164,900)	164,900
Scholarship CD	4,192	(4,192)
GASB Statement No. 3	\$4,274,586	\$6,180,629

5. PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

5. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax receipts received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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 2016 represents collections of calendar year 2015 taxes. Public utility real taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, and are collected in 2016 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.

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, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$131,736,850	95%	\$132,413,950	95%
Public Utility Personal	6,599,230	5	6,763,640	5
Total	\$138,336,080	100%	\$139,177,590	100%
Tax rate per \$1,000 of assessed valuation		\$34.15		\$34.15

6. INCOME TAX

As of June 30, 2016, the School District levies a voted tax of a total of one and one half 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 receipts to the General Fund during fiscal year 2016 were \$1,830,045.

7. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The differences between the budget basis and cash basis are:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

7. BUDGETARY BASIS OF ACCOUNTING (Continued)

- (1) outstanding year-end encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (cash), and,
- (2) difference in perspective arises from some funds being included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the General Fund:

Net Change in Fund Balance	
Cash Basis	\$1,013,346
Adjustment for Encumbrances	(246,750)
Difference in Perspective	118
Budgetary Basis	\$766,714

8. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the School District contracted with the Utica National Insurance Group for general liability, property, and fleet insurance. Coverage provided is as follows:

Buildings and Contents – replacement cost	\$32,862,197
Automobile Liability	1,000,000
Uninsured Motorist	1,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate per member	3,000,000
Sexual misconduct 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
Employee Benefit Liability	
Per Occurrence	1,000,000
Aggregate per member	3,000,000
Public Employee Dishonesty	100,000
Umbrella Liability	
Per Occurrence	5,000,000
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
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

8. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 12). 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.

9. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

B. Plan Description – School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's contractually required contribution to SERS was \$163,358 for fiscal year 2016.

C. Plan Description – State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$621,202 for fiscal year 2016.

D. Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$2,234,291	\$10,837,202	\$13,071,493
Proportion of the Net Pension Liability	.0391562%	.03921255%	

E. Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate – The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District’s proportionate share Of the net pension liability	\$3,098,158	\$2,234,291	\$1,506,843

F. Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District’s net pension liability is expected to be significant.

G. Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above. Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net Pension liability	\$15,053,691	\$10,837,202	\$7,271,532

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

10. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB (other post-employment benefits) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105I. Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contributions to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0 percent.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS cover payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$28,149, and \$21,392, respectively. The full amount has been contributed for all three fiscal years.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 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 Employers/Audit Resources.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$42,443, respectively. The full amount has been contributed for all three fiscal years.

11. JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association

On July 1, 2015, the School District was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). On January 1, 2016, MDECA merged with Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice-president, and six board members who represent the members of META. The Board works with META's chief executive officer, chief operating officer, and chief financial officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting, and designating management. Each school district's degree of control is limited to its representation on the Board. The School District paid META \$30,406 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer at 100 Executive Drive, Marion, Ohio 43302.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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. During fiscal year 2016, the School District paid \$714 in membership fees to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

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.

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. During fiscal year 2016, the School District did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Director, at 1205 E. Fifth Street, Dayton, Ohio 45402.

12. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

12. INSURANCE PURCHASING POOLS (Continued)

B. Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various 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.

13. 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 2016. Financial information can be obtained from the Arcanum Public Library, Deborah Dynes, Clerk/Treasurer, at 101 West North Street, Arcanum, Ohio 45304.

14. 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 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 amount for capital acquisition. Disclosure of this information is required by State statute.

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	190,828
Current Offsets	(46,618)
Qualifying Disbursements	(144,210)
Set-aside Balances Carried Forward to Future Fiscal Years	\$0
Set-aside Reserve Balances as of June 30, 2016	\$0

The School District had current year offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside below zero. These extra amounts may not be used to reduce the set-aside requirements in future fiscal years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

15. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	<u>Principal Outstanding 6/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/16</u>
Classroom Facilities Bonds 2008 3.00 – 4.50%	\$11,314,994	\$0	\$11,110,000	\$204,994
Classroom Facilities Refunding Bonds 2016 -1.47- 4.00%	0	10,769,991	0	10,769,991
Total Long-Term Obligations	<u>\$11,314,994</u>	<u>\$10,769,991</u>	<u>\$11,110,000</u>	<u>\$10,974,985</u>

Classroom Facilities General Obligation Bonds – During 2008, the School District issued bonds in the amount of \$13,039,994 to finance the construction of new school facilities. Of these bonds, \$3,755,000 are serial bonds, with maturity dates of December 1, 2008 to December 1, 2015 and December 1, 2019 to December 1, 2022. \$204,994 of the bonds are capital appreciation bonds, with maturity dates of December 1, 2016, 2017, and 2018. The maturity amount is \$360,000, \$370,000, and \$375,000, respectively. \$3,380,000 are term bonds maturing December 1, 2028, and \$5,700,000 are term bonds maturing December 1, 2035.

Classroom Facilities General Obligation Advance Refunding Bonds – During fiscal year 2016, the School District issued \$10,769,991 in general obligation bonds to advance refund the 2008 serial and term bonds. Of the bonds, \$6,830,000 are serial bonds with maturity dates of December 1, 2016 to December 1, 2019, and December 1, 2023 to December 1, 2031, and \$764,991 are capital appreciation bonds with maturity dates of December 1, 2020, 2021, and 2022. The maturity amount is \$540,000 each year. \$1,540,000 are term bonds maturing December 1, 2033, and \$1,635,000 are term bonds maturing December 31, 2035.

The proceeds from the refunding bonds were used to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the general obligation bonds. As a result, the refunded bonds are considered to be defeased.

The reacquisition price was higher than the net carrying amount of the old debt by \$1,178,322. This advance refunding resulted in a reduction of total debt service payments of \$1,150,997 and an economic gain (present value of debt service savings) of \$763,474.

The School District's overall legal debt margin was \$2,649,419 and the un-voted debt margin was \$139,178 at June 30, 2016.

Principal and interest requirements to retire the general obligation bonds are as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

Fiscal year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$320,000	\$244,878	\$79,175	\$280,825	\$0	\$95,250
2018	\$150,000	234,725	68,084	301,916	0	95,250
2019	\$150,000	230,225	57,735	317,265	0	95,250
2020	530,000	222,675	0	0	0	95,250
2021	0	217,374	290,671	249,329	0	95,250
2022-2026	1,685,000	987,575	474,320	605,680	0	476,250
2027-2031	3,265,000	457,337	0	0	0	476,250
2032-2036	730,000	14,600	0	0	3,175,000	289,275
Total	<u>\$6,830,000</u>	<u>\$2,609,389</u>	<u>\$969,985</u>	<u>\$1,755,015</u>	<u>\$3,175,000</u>	<u>\$1,718,025</u>

The bonds will be paid from the Bond Retirement Debt Service Fund with property tax revenue.

16. FINANCING LEASE

During 2015, the School District entered into a land lease and a leaseback agreement with Greenville National Bank for the purpose of financing the construction, improvement, renovation, furnishment, and equipping of school facilities. The amount financed was \$1,500,000, and the lease carries an interest rate of 2.875 percent. The School District is required to make monthly lease payments of \$10,270, with final payment due January 20, 2030. Principal payments on the lease in fiscal year 2016 totaled \$82,042 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the lease and the present value of the minimum lease payments as of June 30, 2016:

Fiscal Year Ending June 30,	Governmental Activities Amounts
2017	\$123,237
2018	123,237
2019	123,237
2020	123,237
2021	123,237
2022-2026	616,184
2027-2030	441,599
Total	<u>1,673,968</u>
Less: Amount Representing Interest	<u>(289,679)</u>
Present Value of Net Minimum Lease Payments	<u>\$1,384,289</u>

17. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

18. 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, deferred outflows, liabilities, deferred inflows net position/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.

19. FUND BALANCE

Fund balance of the governmental funds is classified as non-spendable, restricted, committed, assigned, and/or unassigned based on the constraints imposed on the use of the resources.

The constraints placed on fund balance for the major governmental funds and all other governmental funds at June 30, 2016 were as follows:

<u>Fund Balance</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for:					
Bus Purchases	\$2,250				\$2,250
School Construction			\$3,849,639	\$178,608	4,028,247
Facilities Maintenance				460,948	460,948
Debt Retirement		\$1,098,422			1,098,422
School Library				6,082	6,082
Special Education				6,883	6,883
Network Connectivity				4,128	4,128
Food Service Operations				120,088	120,088
Athletics				71,209	71,209
Art grant				213	213
Total Restricted	<u>2,250</u>	<u>1,098,422</u>	<u>3,849,639</u>	<u>848,159</u>	<u>5,798,470</u>
Committed to:					
Latchkey/Preschool				5	5
Total Committed				<u>5</u>	<u>5</u>
Assigned for:					
Unpaid Obligations	246,750				246,750
Capital Improvements	2,494				2,494
Uniform School Supplies	95,843				95,843
Educational Activities	1,303				1,303
Total Assigned	<u>346,390</u>				<u>346,390</u>
Unassigned	4,244,636				4,244,636
Total Fund Balance	<u>\$4,593,276</u>	<u>\$1,098,422</u>	<u>\$3,849,639</u>	<u>\$848,164</u>	<u>\$10,389,501</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

20. CONTRACTUAL COMMITMENTS

As of June 30, 2016, the School District had significant contractual purchase commitments as follows:

<u>Vendor</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance At 6/30/16</u>
Messer Construction	Roof Replacements	\$984,999	\$595,004	\$389,995
Bricker and Eckler	Legal fees	65,000	53,774	11,226
Mays Consulting & Evaluation	Construction	280,000	245,990	34,010
AKA Construction	Masonry	849,491		849,491
Outdoor Aluminum	Bleachers	34,878		34,878

21. EXTRAORDINARY ITEM

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. In fiscal year 2016, the District reported an extraordinary item in the amount of \$2,250,000, which represented an insurance settlement related to the School District's building.

22. FOUNDATION FUNDING

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District, therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable or liability of the School District.

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Net Position - Cash Basis
June 30, 2015

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,795,685
Cash and Cash Equivalents with Fiscal Agent	866
<i>Total Assets</i>	<i>\$8,796,551</i>
 Net Position	
Restricted for:	
Debt Service	\$754,603
Capital Outlay	3,888,247
Set-Asides	2,250
Other Purposes	573,652
Unrestricted	3,577,799
<i>Total Net Position</i>	<i>\$8,796,551</i>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District

Darke County, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2015*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position	
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$5,281,785	\$1,120,073	\$42,951		(\$4,118,761)
Special	1,210,548	71,461	195,295		(943,792)
Vocational	85,294		86,898		1,604
Other	70,797				(70,797)
Support Services:					
Pupil	261,897				(261,897)
Instructional Staff	602,917		136,107		(466,810)
Board of Education	72,805				(72,805)
Administration	750,871				(750,871)
Fiscal	291,181				(291,181)
Operation and Maintenance of Plant	902,294				(902,294)
Pupil Transportation	495,536				(495,536)
Central	1,040				(1,040)
Operation of Non-Instructional Services	276,229	134,424	124,703		(17,102)
Extracurricular Activities	370,708	146,856	30,695		(193,157)
Capital Outlay	389,228			1,029,392	640,164
Principal Retirement	353,669				(353,669)
Interest and Fiscal Charges	503,648				(503,648)
Totals	<u>\$11,920,447</u>	<u>\$1,472,814</u>	<u>\$616,649</u>	<u>\$1,029,392</u>	<u>(\$8,801,592)</u>
General Receipts					
					2,221,146
					805,038
					45,466
					1,780,553
					5,654,718
					17,988
					57,333
					<u>1,500,000</u>
					<u>12,082,242</u>
					3,280,650
					<u>5,515,901</u>
					<u>\$8,796,551</u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2015

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,577,680	\$3,509,730	\$1,706,025	\$8,793,435
Cash and Cash Equivalents with Fiscal Agent			866	866
Restricted Asset:				
Equity in Pooled Cash and Cash Equivalents	<u>2,250</u>			<u>2,250</u>
<i>Total Assets</i>	<u><u>\$3,579,930</u></u>	<u><u>\$3,509,730</u></u>	<u><u>\$1,706,891</u></u>	<u><u>\$8,796,551</u></u>
Fund Balances				
Restricted	2,250	3,509,730	1,706,868	5,218,848
Committed			119	119
Assigned	384,354			384,354
Unassigned	<u>3,193,326</u>		<u>(96)</u>	<u>3,193,230</u>
<i>Total Fund Balances</i>	<u><u>\$3,579,930</u></u>	<u><u>\$3,509,730</u></u>	<u><u>\$1,706,891</u></u>	<u><u>\$8,796,551</u></u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$2,221,146		\$850,504	\$3,071,650
Income Tax	1,780,553			1,780,553
Intergovernmental	5,583,488	1,022,844	638,400	7,244,732
Interest	17,988	4,627	2,151	24,766
Tuition and Fees	1,094,188		75,133	1,169,321
Customer Sales and Service			134,424	134,424
Extracurricular Activities	19,496		146,824	166,320
Contributions and Donations	35,669		13,829	49,498
Miscellaneous	27,610			27,610
<i>Total Receipts</i>	<u>10,780,138</u>	<u>1,027,471</u>	<u>1,861,265</u>	<u>13,668,874</u>
Disbursements				
Current:				
Instruction:				
Regular	5,152,002		129,783	5,281,785
Special	886,548		324,000	1,210,548
Vocational	85,294			85,294
Other	70,797			70,797
Support Services:				
Pupil	261,897			261,897
Instructional Staff	590,256		12,661	602,917
Board of Education	72,805			72,805
Administration	750,067		804	750,871
Fiscal	271,215		19,966	291,181
Operation and Maintenance of Plant	859,500		42,794	902,294
Pupil Transportation	495,536			495,536
Central	1,040			1,040
Operation of Non-instructional Activities			276,229	276,229
Extracurricular Activities	226,630		144,078	370,708
Capital Outlay	303,533	85,666	29	389,228
Principal	33,669		320,000	353,669
Interest	17,679		485,970	503,649
<i>Total Disbursements</i>	<u>10,078,468</u>	<u>85,666</u>	<u>1,756,314</u>	<u>11,920,448</u>
<i>Excess of Receipts Over Disbursements</i>	<u>701,670</u>	<u>941,805</u>	<u>104,951</u>	<u>1,748,426</u>
Other Financing Sources (Uses)				
Transfers In		1,722,775	29,538	1,752,313
Transfers Out	(627,937)		(1,124,376)	(1,752,313)
Advances In			10,012	10,012
Advances Out	(10,012)			(10,012)
Refund of Prior Year Expenditures	32,191		33	32,224
Proceeds of Lease			1,500,000	1,500,000
<i>Total Other Financing Sources(Uses)</i>	<u>(605,758)</u>	<u>1,722,775</u>	<u>415,207</u>	<u>1,532,224</u>
<i>Net Change in Fund Balances</i>	95,912	2,664,580	520,158	3,280,650
<i>Fund Balances Beginning of Year, Restated</i>	<u>3,484,018</u>	<u>845,150</u>	<u>1,186,733</u>	<u>5,515,901</u>
<i>Fund Balances End of Year</i>	<u>\$3,579,930</u>	<u>\$3,509,730</u>	<u>\$1,706,891</u>	<u>\$8,796,551</u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio

*Statement of Cash Receipts, Cash Disbursements, and Changes
In Fund Cash Balance - Budget and Actual - Budgetary Basis
General Fund*

For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$1,991,927	\$2,210,862	\$2,221,146	\$10,284
Income Taxes	1,750,000	1,750,000	1,780,553	30,553
Intergovernmental	5,614,651	5,614,651	5,583,488	(31,163)
Tuition and Fees	1,085,500	1,085,500	1,055,854	(29,646)
Interest	18,500	18,500	17,988	(512)
Gifts and Donations	10,000	10,000	17,749	7,749
Miscellaneous	14,500	14,500	27,610	13,110
<i>Total Revenues</i>	<u>10,485,078</u>	<u>10,704,013</u>	<u>10,704,388</u>	<u>375</u>
Expenditures				
Current:				
Instruction:				
Regular	5,137,364	5,087,251	5,085,234	2,017
Special	833,270	894,153	892,548	1,605
Vocational	83,865	83,142	83,125	17
Other	67,908	71,841	71,841	
Support Services:				
Pupil	265,145	262,216	262,217	(1)
Instructional Staff	536,884	595,273	595,275	(2)
Board of Education	67,787	74,405	74,405	
Administration	769,814	752,084	750,985	1,099
Fiscal	277,253	272,510	272,065	445
Operation and Maintenance of Plant	1,021,071	919,834	899,482	20,352
Pupil Transportation	563,658	535,038	498,275	36,763
Central	3,188	1,040	1,040	
Extracurricular Activities	219,864	226,634	226,630	4
Operation of Non-Instructional Services	130			
Capital Outlay	182,638	313,181	313,180	1
Debt Service:				
Principal		33,524	33,669	(145)
Interest		17,825	17,679	146
<i>Total Expenditures</i>	<u>10,029,839</u>	<u>10,139,951</u>	<u>10,077,650</u>	<u>62,301</u>
<i>Excess of Revenues Over Expenditures</i>	<u>455,239</u>	<u>564,062</u>	<u>626,738</u>	<u>62,676</u>
Other Financing Sources (Uses)				
Transfers Out	(5,000)	(627,937)	(627,937)	
Advances Out	(2,000)	(10,012)	(10,012)	
Refund of Prior Year Expenditures	5,000	5,000	32,085	27,085
<i>Total Other Financing Sources (Uses)</i>	<u>(2,000)</u>	<u>(632,949)</u>	<u>(605,864)</u>	<u>27,085</u>
<i>Net Change in Fund Balance</i>	453,239	(68,887)	20,874	89,761
<i>Fund Balance Beginning of Year</i>	3,179,039	3,179,039	3,179,039	
Prior Year Encumbrances Appropriated	179,116	179,116	179,116	
<i>Fund Balance End of Year</i>	<u>\$3,811,394</u>	<u>\$3,289,268</u>	<u>\$3,379,029</u>	<u>\$89,761</u>

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2015

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,878	\$29,782
Investments in Segregated Accounts	19,521	0
<i>Total Assets</i>	\$32,399	\$29,782
Liabilities		
Due to Students		\$29,782
Net Position		
Held in Trust for Scholarships	\$32,399	

See accompanying notes to the basic financial statements

Arcanum-Butler Local School District
Darke County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015

	Private Purpose Trust
Additions	
Gifts and Contributions	\$6,003
Interest	17
	6,020
Deductions	
Payments in Accordance with Trust Agreements	3,085
Change in Net Position	2,935
Net Position - Beginning of Year	29,464
Net Position - End of Year	\$32,399

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 41 non-certificated employees, 70 certified full-time teaching personnel and 4 administrative employees who provide services to 1,081 students and other community members. The School District currently operates one building which houses all operations of the school.

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 District is financially accountable and for which a financial benefit or burden relationship exists. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District is financially accountable for an organization if an organization is fiscally dependent on the District and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on the District regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. Component units may also include organizations that do not otherwise meet the criteria for inclusion if it is determined that their exclusion would be misleading. 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 11, 12 and 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

Related Organization:

- Arcanum Public Library

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. 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.

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 are the School District's major governmental funds:

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.

Classroom Facilities Fund – The Classroom Facilities Capital Projects Fund accounts for the receipts and expenditures associated with the State's share of the construction of the new school building.

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

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 position and statement of activities, and fund financial statements providing more detailed financial information.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-wide Financial Statement of Net Position 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 position 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. 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.

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.

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 Board of Education uses the fund and two digit function level within the General Fund and fund level for all other funds as its legal level of control.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits of the Darke County Educational Service Center.

The School District invested in non-negotiable certificates of deposit, STAR Ohio, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank, and mutual funds during fiscal year 2015. 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.

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 2015 were \$17,988. \$5,525 was assigned to the General Fund from other 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 and investments in the General Fund are amounts restricted for bus purchases.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 June 30, 2015, 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

Fund balance is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted fund balance is available.

Fund balance is reported as committed when the Board of Education of the School District has placed constraints on the use of resources by resolution.

Fund balance is reported as assigned when the Treasurer has encumbered or otherwise set aside resources not already committed to be used for a specific purpose.

Fund balance is reported as non-spendable when amounts cannot be spent because they are not in spendable form, or legally or contractually required to remain intact.

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

The School District applies committed resources first and then assigned resources when a disbursement is incurred for purposes which committed, assigned and unassigned fund balance is available.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Position

Net position is reported as restricted when there are limitations imposed on its 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 position restricted for other purposes includes 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 position is available.

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. CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2015, the School District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date." GASB 68 replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers" and Statement No. 50, "Pension Disclosures." GASB 68 improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 71 amends GASB 68 and is effective with the provisions of GASB 71. The implementation of GASB Statement No. 68 had no impact on fund balance as previously reported at June 30, 2014.

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

The following information discloses the risks associated with the School District's deposits and investments as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

At June 30, 2015, the School District had \$1,300 in un-deposited cash on hand.

A. Deposits

At June 30, 2015, the book balance of the School District's deposits was \$3,070,538 and the bank balance was \$3,266,365.

Custodial Credit Risk

Of the School District's \$3,266,365 bank balance, \$36,738 was exposed to custodial credit risk as discussed below, while \$3,229,627 was covered by the Federal Deposit Insurance Corporation (FDIC). Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute.

B. Investments

As of June 30, 2015, the School District had the following investments:

<u>Investment</u>	<u>Amount</u>	<u>Maturity Date</u>
STAR Ohio	\$3,049,558	Various
Federal National Mortgage Association Note	59,980	03/30/16
Federal National Mortgage Association Note	104,385	08/28/17
Federal National Mortgage Association Note	154,150	10/26/17
Federal National Mortgage Association Note	223,657	02/08/18
Federal National Mortgage Association Note	89,910	04/30/18
Federal National Mortgage Association Note	200,000	05/27/20
Federal Home Loan Mortgage Corporation	249,188	09/29/17
Federal Home Loan Mortgage Corporation	249,750	06/25/19
Federal Farm Credit Bank	314,603	01/27/17
Federal Farm Credit Bank	280,000	06/26/17
Federal Farm Credit Bank	144,993	08/07/17
Federal Farm Credit Bank	239,299	11/15/17
Invesco STIT Government and Agency Mutual Fund	418,361	Various
First American Treasury Obligations Money Market Fund	8,194	Various
	<u>\$5,786,028</u>	

Interest Rate Risk: State statute limits the maturity of investments to five years unless matched to a specific obligation or debt of the School District. The School District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. 53% of the District's investments at June 30, 2015 were in STAR Ohio, 17% were in the Federal Farm Credit Bank, 14% were in the Federal National Mortgage Association, 9% were in the Federal Home Loan Mortgage Corporation, and 7% were in Invesco Government and Agency Mutual funds.

Credit Risk: State statute limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investment in STAR Ohio was rated AAAM by Standards & Poor's at June 30, 2015. The School District's investments in the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Farm Credit were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's at June 30, 2015.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 and No. 40 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$8,839,211	\$19,521
Petty cash	(1,300)	
Cash with Fiscal Agent	(866)	
Investments:		
STAR Ohio	(3,049,558)	3,049,558
Federal National Mortgage Association	(832,082)	832,082
Federal Home Loan Mortgage Corporation	(498,938)	498,938
Federal Farm Credit Bank	(978,895)	978,895
Invesco STIT Government and Agency Mutual Fund	(418,361)	418,361
First American Treasury Obligations Money Market Fund	(8,194)	8,194
Scholarship CDs	19,521	(19,521)
GASB Statement No. 3	\$3,070,538	\$5,786,028

5. PROPERTY TAXES

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

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

5. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax receipts received in calendar 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, 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 2015 represents collections of calendar year 2014 taxes. Public utility real taxes received in calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014, and are collected in 2015 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.

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, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2015 taxes were collected are:

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$108,367,210	94%	\$131,736,850	95%
Public Utility Personal	6,379,090	6	6,599,230	5
Total	<u>\$114,746,300</u>	<u>100%</u>	<u>\$138,336,080</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$34.15		\$34.15	

6. INCOME TAX

As of June 30, 2015, the School District levies a voted tax of a total of one and one half 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 receipts to the General Fund during fiscal year 2015 were \$1,780,553.

7. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The differences between the budget basis and cash basis are:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

7. BUDGETARY BASIS OF ACCOUNTING (Continued)

- (1) outstanding year-end encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (cash), and,
- (2) difference in perspective arises from some funds being included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the General Fund:

Net Change in Fund Balance	
Cash Basis	\$95,912
Adjustment for Encumbrances	(76,129)
Difference in Perspective	1,091
Budgetary Basis	\$20,874

8. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2015, the School District contracted with the Liberty Mutual Insurance for general liability, property, and fleet insurance. Coverage provided is as follows:

Buildings and Contents – replacement cost	\$32,455,347
Automobile Liability	1,000,000
Uninsured Motorist	1,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate per member	2,000,000
Sexual misconduct 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
Employee Benefit Liability	
Per Occurrence	1,000,000
Aggregate per member	3,000,000
Public Employee Dishonesty	50,000
Umbrella Liability	
Per Occurrence	5,000,000
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.

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DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

8. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 12). 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.

9. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

B. School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$153,011 for fiscal year 2015.

C. State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$590,550 for fiscal year 2015.

D. Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,903,522	\$10,042,006	\$11,945,528
Proportion of the Net Pension Liability	.037612%	.04128527%	

E. Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00%	0.00%
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00%</u>	

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District/s proportionate share of the net pension liability	\$2,715,760	\$1,903,522	\$1,220,359

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013 or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00%	8.00%
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$14,376,227	\$10,042,006	\$6,376,714

10. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

10. POST-EMPLOYMENT BENEFITS (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$28,149, \$21,392, and \$18,146, respectively. The full amount has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$42,443 and \$42,282, respectively. The full amount has been contributed for all three fiscal years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. 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 \$31,111 for computer services provided during the fiscal year. Financial information can be obtained from Dean A. Reineke, who serves as Executive 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. During fiscal year 2015, the School District paid \$717 in fees to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

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
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

11. 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 position shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2015, the School District did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Director, at 1205 E. Fifth Street, Dayton, Ohio 45402.

12. 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 School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various 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.

13. 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 2015. Financial information can be obtained from the Arcanum Public Library, Deborah Dynes, Clerk/Treasurer, at 101 West North Street, Arcanum, Ohio 45304.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

14. 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 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 amount for capital acquisition. Disclosure of this information is required by State statute.

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	193,403
Current Offsets	(45,466)
Qualifying Disbursements	(147,937)
Set-aside Balances Carried Forward to Future Fiscal Years	\$0
Set-aside Reserve Balances as of June 30, 2015	\$0

The School District had current year offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside below zero. These extra amounts may not be used to reduce the set-aside requirements in future fiscal years.

15. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2015 were as follows:

	Principal Outstanding 6/30/14	Additions	Deductions	Principal Outstanding 6/30/15
Classroom Facilities Bonds 2008 3.00 – 4.50%	\$11,634,994	\$0	\$320,000	\$11,314,994

Classroom Facilities General Obligation Bonds – During 2008, the School District issued bonds in the amount of \$13,039,994 to finance the construction of new school facilities. Of these bonds, \$3,755,000 are serial bonds, with maturity dates of December 1, 2008 to December 1, 2015 and December 1, 2019 to December 1, 2022. \$204,994 of the bonds are capital appreciation bonds, with maturity dates of December 1, 2016, 2017, and 2018. The maturity amount is \$360,000, \$370,000, and \$375,000, respectively. \$3,380,000 are term bonds maturing December 1, 2028, and \$5,700,000 are term bonds maturing December 1, 2035.

The current interest term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amount as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2023	\$485,000
2024	515,000
2025	545,000
2026	580,000
2027	610,000

The remaining principal amount of \$645,000 will be paid at stated maturity on December 1, 2028.

The current interest term bonds maturing on December 1, 2035 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2029	\$685,000
2030	725,000
2031	765,000
2032	810,000
2033	855,000
2034	905,000

The remaining principal amount of \$955,000 will be paid at stated maturity on December 1, 2035.

The School District's overall legal debt margin was \$1,889,856 and the un-voted debt margin was \$138,336 at June 30, 2015.

Principal and interest requirements to retire the school facilities construction and improvement bonds are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Serial Bonds</u>		<u>Capital Appreciation Bonds</u>		<u>Term Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$340,000	\$74,668				\$400,150
2017		68,719	\$79,175	\$280,825		400,150
2018		68,719	68,084	301,916		400,150
2019		68,719	57,735	317,265		400,150
2020	385,000	61,018				400,150
2021-2025	1,305,000	85,104			\$1,000,000	1,956,337
2026-2030					3,065,000	1,476,401
2031-2035					4,060,000	691,878
2036-2040					955,000	21,488
Total	<u>\$2,030,000</u>	<u>\$426,947</u>	<u>\$204,994</u>	<u>\$900,006</u>	<u>\$9,080,000</u>	<u>\$6,146,854</u>

The bonds will be paid from the Bond Retirement Debt Service Fund with property tax revenue.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

16. FINANCING LEASE

During 2015, the School District entered into a land lease and a leaseback agreement with Greenville National Bank for the purpose of financing the construction, improvement, renovation, furnishment, and equipping of school facilities. The amount financed was \$1,500,000, and the lease carries an interest rate of 2.875 percent. The School District is required to make monthly lease payment of \$10,270, with final payment due January 20, 2030. Principal payments on the lease in fiscal year 2015 totaled \$33,669 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the lease and the present value of the minimum lease payments as of June 30, 2015:

Fiscal Year Ending June 30,	Governmental Activities Amounts
2016	\$123,237
2017	123,237
2018	123,237
2019	123,237
2020	123,237
2021-2025	616,184
2026-2030	564,836
Total	1,797,205
Less: Amount Representing Interest	(330,874)
Present Value of Net Minimum Lease Payments	\$1,466,331

17. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

18. 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, deferred outflows, liabilities, deferred inflows, net position/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
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

19. FUND BALANCE

Fund balance of the governmental funds is classified as non-spendable, restricted, committed, assigned, and/or unassigned based on the constraints imposed on the use of the resources.

The constraints placed on fund balance for the major governmental funds and all other governmental funds at June 30, 2015 were as follows:

Fund Balance	General	Classroom Facilities	Other Governmental Funds	Total
Restricted for:				
Bus Purchases	\$2,250			\$2,250
School Construction		\$3,509,730	\$378,476	3,888,206
Facilities Maintenance			387,870	387,870
Debt Retirement			754,603	754,603
School Library			6,145	6,145
Special Education			3,778	3,778
Network Connectivity			7,970	7,970
Professional Development			31	31
Food Service Operations			92,177	92,177
Athletics			75,634	75,634
Handicapped Preschool			184	184
Total Restricted	2,250	3,509,730	1,706,868	5,218,848
Committed to:				
Latchkey/Preschool			119	119
Total Committed			119	119
Assigned for:				
Unpaid Obligations	72,723			72,723
Capital Improvements	209,720			209,720
Uniform School Supplies	101,492			101,492
Educational Activities	419			419
Total Assigned	384,354			384,354
Unassigned	3,193,326		(96)	3,193,230
Total Fund Balance	\$3,579,930	\$3,509,730	\$1,706,891	\$8,796,551

20. RESTATEMENT OF FUND BALANCES

An adjustment was necessary to restate opening fund balances for the general fund and other governmental funds. The adjustment to fund balances increased general fund balance from \$3,375,652 to \$3,484,018 and decreased other governmental funds fund balance from \$1,295,099 to \$1,186,733 at June 30, 2014.

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INDEPENDENT AUDITOR'S 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
2011 Trojan Avenue
Arcanum, Ohio 45304

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 7, 2017, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles and the School District also restated its fund balances as of July 1, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 to be a material weakness.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

School District's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

July 7, 2017

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

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

NONCOMPLIANCE

Ohio Rev. Code § 117.38 provides, in part, 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 Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires, in part, all school districts to file annual financial reports which are prepared using generally accepted accounting principles.

The School District prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 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 its financial statements in accordance with generally accepted accounting principles to provide users with more complete and meaningful financial statements.

Officials' Response:

On September 20, 2004, the Board of Education unanimously agreed to approve filing on OCBOA 34 (other comprehensive basis of accounting) 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.

FINDING NUMBER 2016-002

MATERIAL WEAKNESS – GASB 54 REPORTING

Governmental Accounting Standards Board (GASB) Statement 54, paragraph 5 (GASB Codification 1800.165) states that fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Paragraphs 30-35 (GASB Codification 1300.104-.108) discuss the various governmental type funds that are to be used to report proceeds of specific revenue sources that are restricted or committed for specified purposes. Specifically, paragraph 30 states that special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Paragraph 29 indicates that the general fund should be used to account for and report all resources not accounted for and reported in another fund.

FINDING NUMBER 2016-002
(Continued)

The School District reported the Uniform School Supplies Fund (Fund 009) as a special revenue fund that rolled into other governmental funds on the fiscal year 2016 and 2015 financial statements. However, this fund's activity does not fit the definition of a special revenue fund and should be reported in the General Fund. Additionally, Auditor of State Bulletin 2011-004 includes a GASB 54 fund balance classification analysis that shows that the Uniform School Supplies Fund should be reported within the General Fund. As a result, 2015 activity was adjusted from other governmental funds to the General Fund in the following amounts: beginning balance of \$108,366, revenues of \$38,334, expenditures of \$45,207, intra-fund transfers in/out of \$89,810, and ending balance of \$101,493. Additionally, 2016 activity was adjusted from other governmental funds to the general fund in the following amounts: beginning balance of \$101,493, revenues of \$34,910, expenditures of \$40,557, and ending balance of \$95,846. The year-end balances have been classified as assigned fund balance in the General Fund in the accompanying financial statements.

Failure to properly report activity in accordance with GASB 54 could result in unreliable financial statements and material financial statement errors.

The District should implement procedures to review the requirements of GASB 54 and Auditor of State Bulletin 2011-004 in order to properly report activity and balances at year-end.

Officials' Response:

We did not receive a response from Officials to this finding.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B) – The School District is required to prepare a GAAP report, but instead prepared a report in accordance with the cash accounting basis for fiscal year 2014 and 2013.	Not corrected	On September 20, 2004, the Board of Education unanimously agreed to approve filing on OCBOA 34 (other comprehensive basis of accounting) 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.
2014-002	Ohio Rev. Code Section 5705.41(D)(1) – The School District did not properly encumber 17% of expenditures tested for fiscal year 2014 and 2013.	Corrective Action Taken and Finding is Fully Corrected	N/A
2014-003	Material Weakness – Major Fund Presentation – For fiscal year 2013, the Bond Retirement Fund was incorrectly presented as part of other governmental funds, but met the requirements to be reported as a major fund.	Corrective Action Taken and Finding is Fully Corrected	N/A

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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
JULY 18, 2017