



**ARCANUM-BUTLER LOCAL SCHOOL DISTRICT
DARKE COUNTY
REGULAR AUDIT
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arcanum-Butler Local School District, Darke County, (the District), as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Arcanum-Butler Local School District, Darke County, as of June 30, 2005 and 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2004, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 7, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Arcanum-Butler Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities decreased \$100,398.
- General receipts accounted for \$7,017,683 in receipts or 84% of all receipts. Program specific cash receipts in the form of charges for services, grants and contributions accounted for \$1,368,057 or 16% of total receipts of \$8,385,740.
- The School District had \$8,486,138 in disbursements related to governmental activities; only \$1,368,057 of these disbursements were offset by program specific charges for services, grants and contributions. General revenues of \$7,017,683 were not adequate to provide for these programs by \$100,398.
- The School District's General Fund is the only major fund. The General Fund had \$7,577,216 in receipts and \$7,666,407 in disbursements. The General Fund's balance decreased \$89,191.

Using this Annual Financial Report

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

A. Report Components

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

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

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

B. Basis of Accounting

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities – Modified Cash Basis

The statement of net assets and the statement of activities reflect how the School District did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year end. The statement of activities compares cash disbursements with program receipts for each governmental function. 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. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, the condition of the School District's capital assets and infrastructure, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

Reporting the School District's Most Significant Funds

A. Fund Financial Statements

Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

B. Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

C. Fiduciary Funds

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004 on a modified cash basis:

**Table 1
Net Assets**

| | <u>2005</u> | <u>2004</u> |
|--|--------------------|--------------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$1,463,122</u> | <u>\$1,563,520</u> |
| Net Assets | | |
| Restricted | 400,171 | 254,992 |
| Unrestricted | <u>1,062,951</u> | <u>1,308,528</u> |
| Total Net Assets | <u>\$1,463,122</u> | <u>\$1,563,520</u> |

The above table reflects a decrease in net assets of \$100,398.

Table 2 shows the changes in net assets for the fiscal years 2004 and 2005.

**Table 2
Changes in Net Assets**

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2004</u> | <u>Percentage Changed</u> |
|------------------------------------|---|---|-------------------------------|
| Receipts | | | |
| Program Cash Receipts | | | |
| Charges for Services | \$737,300 | \$796,393 | (7.01%) |
| Operating Grants and Contributions | 619,342 | 556,303 | 35.23 |
| Capital Grants and Contributions | <u>11,415</u> | <u>35,822</u> | (68.13) |
| Total Program Cash Receipts | <u>1,368,057</u> | <u>1,388,518</u> | 16.07 |
| General Receipts | | | |
| Property Taxes | 1,809,519 | 1,761,397 | 2.73 |
| Income Tax | 714,246 | 701,841 | 1.77 |
| Grants and Entitlements | 4,435,643 | 4,150,205 | 1.11 |
| Gifts and Donations | 19,149 | 27,703 | (30.88) |
| Investment Earnings | 35,845 | 20,147 | 77.92 |
| Miscellaneous | <u>3,281</u> | <u>2,627</u> | 24.90 |
| Total General Receipts | <u>7,017,683</u> | <u>6,663,920</u> | 1.71 |
| Total Receipts | 8,385,740 | 8,052,438 | 4.18 |

(Continued)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

| | <u>Governmental Activities</u> <u>2005</u> | <u>Governmental Activities</u> <u>2004</u> | <u>Percentage Changed</u> |
|---|---|---|-------------------------------|
| Program Disbursements | | | |
| Instruction: | | | |
| Regular | 4,403,292 | 4,370,733 | 1.00 |
| Special | 734,495 | 753,060 | (2.47) |
| Vocational | 57,679 | 52,315 | 10.25 |
| Support Services: | | | |
| Pupils | 473,757 | 449,538 | 5.39 |
| Instructional Staff | 396,955 | 410,865 | (3.38) |
| Board of Education | 26,370 | 21,400 | 23.22 |
| Administration | 615,139 | 626,531 | (1.81) |
| Fiscal | 182,547 | 184,276 | (1.00) |
| Operation and Maintenance of Plant | 622,115 | 665,276 | (6.49) |
| Pupil Transportation | 356,051 | 395,008 | (10.00) |
| Central | 4,573 | 7,032 | (34.97) |
| Operation of Non-Instructional Services | 306,718 | 283,284 | 8.27 |
| Extracurricular Activities | 306,447 | 327,712 | (6.49) |
| Capital Outlay | | 148,577 | (100.00) |
| Total Disbursements | <u>8,486,138</u> | <u>8,695,607</u> | (2.41) |
| Decrease in Net Assets | <u>(\$100,398)</u> | <u>(\$643,169)</u> | (84.47%) |

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 21.6% of revenues for governmental activities for the Arcanum-Butler Local School District in fiscal year 2005.

The School District currently has a .75% income tax. This is approximately 9% of revenues for governmental activities for the Arcanum-Butler Local School District in fiscal year 2005. The School District is asking the voters for approval of an additional .75% income tax, bringing the total income tax to 1.5%.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Table 3
Governmental Activities**

| | <u>Total Cost of Services</u> <u>2005</u> | <u>Net Cost of Services</u> <u>2005</u> | <u>Total Cost of Services</u> <u>2004</u> | <u>Net Cost of Services</u> <u>2004</u> |
|---|--|--|--|--|
| Program Disbursements | | | | |
| Instruction: | | | | |
| Regular | \$4,403,292 | \$3,981,793 | \$4,370,733 | \$3,880,136 |
| Special | 734,495 | 449,855 | 753,060 | 452,825 |
| Vocational | 57,679 | 38,949 | 52,315 | 35,180 |
| Support Services: | | | | |
| Pupils | 473,757 | 288,196 | 449,538 | 306,954 |
| Instructional Staff | 396,955 | 374,576 | 410,865 | 384,320 |
| Board of Education | 26,370 | 26,370 | 21,400 | 21,400 |
| Administration | 615,139 | 615,139 | 626,531 | 626,531 |
| Fiscal | 182,547 | 182,547 | 184,276 | 184,276 |
| Operation and Maintenance of Plant | 622,115 | 609,075 | 665,276 | 650,351 |
| Pupil Transportation | 356,051 | 344,636 | 395,008 | 385,311 |
| Central | 4,573 | (427) | 7,032 | 2,032 |
| Operation of Non-Instructional Services | 306,718 | 8,656 | 283,284 | 12,745 |
| Extracurricular Activities | 306,447 | 198,716 | 327,712 | 216,451 |
| Capital Outlay | | | 148,577 | 148,577 |
| Total | <u><u>\$8,486,138</u></u> | <u><u>\$7,118,081</u></u> | <u><u>\$8,695,607</u></u> | <u><u>\$7,307,089</u></u> |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2005, approximately 84% of instruction activities were supported through taxes and other general revenues.

The School District Funds

The School District's major fund is accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$8,385,740 and disbursements of \$8,486,138. The General Fund had a decrease in fund balance of \$89,191 due to a combination of factors including less state funding and an increase in expenses including health care, diesel fuel, natural gas, and maintenance to the buildings.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$7,341,585, above original estimates of \$7,358,585. The \$17,000 difference was mainly due to a slight decrease in enrollment.

The School District's ending unobligated General Fund balance was \$1,103,573.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Nicholas A Hamilton, Treasurer at Arcanum-Butler Local School District, 2 Weisenbarger Court, Arcanum, Ohio 45304. Or E-Mail at ab_treas@mdeca.org.

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

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

| | <u>Governmental Activities</u> |
|---|---|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,452,792 |
| Cash and Cash Equivalents with Fiscal Agent | <u>10,330</u> |
| Total Assets | <u><u>1,463,122</u></u> |
| Net Assets | |
| Restricted for: | |
| Capital Outlay | 30 |
| Set-Asides | 173,991 |
| Other Purposes | 226,150 |
| Unrestricted | <u>1,062,951</u> |
| Total Net Assets | <u><u>\$1,463,122</u></u> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Cash Disbursements</u> | <u>Program Cash Receipts</u> | | | <u>Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities</u> |
|---|-------------------------------|-------------------------------------|---|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$4,403,292 | \$356,574 | \$64,925 | | (\$3,981,793) |
| Special | 734,495 | 41,922 | 242,718 | | (449,855) |
| Vocational | 57,679 | 4,101 | 14,629 | | (38,949) |
| Support Services: | | | | | |
| Pupils | 473,757 | | 185,561 | | (288,196) |
| Instructional Staff | 396,955 | | 22,379 | | (374,576) |
| Board of Education | 26,370 | | | | (26,370) |
| Administration | 615,139 | | | | (615,139) |
| Fiscal | 182,547 | | | | (182,547) |
| Operation and Maintenance of Plant | 622,115 | 13,040 | | | (609,075) |
| Pupil Transportation | 356,051 | | | 11,415 | (344,636) |
| Central | 4,573 | | 5,000 | | 427 |
| Operation of Non-Instructional Services | 306,718 | 213,932 | 84,130 | | (8,656) |
| Extracurricular Activities | 306,447 | 107,731 | | | (198,716) |
| Totals | <u>\$8,486,138</u> | <u>\$737,300</u> | <u>\$619,342</u> | <u>\$11,415</u> | <u>(7,118,081)</u> |
| General Receipts | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 1,809,519 |
| Income Tax | | | | | 714,246 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 4,435,643 |
| Gifts and Donations | | | | | 19,149 |
| Investment Earnings | | | | | 35,845 |
| Miscellaneous | | | | | 3,281 |
| Total General Receipts | | | | | <u>7,017,683</u> |
| Change in Net Assets | | | | | (100,398) |
| Net Assets Beginning of Year | | | | | <u>1,563,520</u> |
| Net Assets End of Year | | | | | <u>\$1,463,122</u> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|---|---|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,062,951 | \$215,850 | \$1,278,801 |
| Cash and Cash Equivalents with Fiscal Agent | | 10,330 | 10,330 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 173,991 | | 173,991 |
| Total Assets | <u>\$1,236,942</u> | <u>\$226,180</u> | <u>\$1,463,122</u> |
| Fund Balances | | | |
| Reserved for Encumbrances | \$129,621 | \$19,603 | \$149,224 |
| Reserved for Capital Improvements | 125,822 | | 125,822 |
| Reserved for Textbooks and Instructional Materials | 48,169 | | 48,169 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 933,330 | | 933,330 |
| Special Revenue Funds | | 206,547 | 206,547 |
| Capital Projects Fund | | 30 | 30 |
| Total Fund Balances | <u>\$1,236,942</u> | <u>\$226,180</u> | <u>\$1,463,122</u> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------|---|---|
| Receipts | | | |
| Property Taxes | \$1,809,519 | | \$1,809,519 |
| Income Taxes | 714,246 | | 714,246 |
| Intergovernmental | 4,652,786 | \$413,614 | 5,066,400 |
| Investment Earnings | 33,996 | 1,849 | 35,845 |
| Charges for Services | | 213,932 | 213,932 |
| Tuition and Fees | 349,348 | 34,777 | 384,125 |
| Rent | 13,040 | | 13,040 |
| Gifts and Donations | 1,000 | 18,149 | 19,149 |
| Extracurricular Activities | | 126,203 | 126,203 |
| Miscellaneous | 3,281 | | 3,281 |
| | <hr/> | <hr/> | <hr/> |
| Total Receipts | 7,577,216 | 808,524 | 8,385,740 |
| Disbursements | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 4,277,858 | 125,434 | 4,403,292 |
| Special | 682,179 | 52,316 | 734,495 |
| Vocational | 56,538 | 1,141 | 57,679 |
| Support Services: | | | |
| Pupils | 283,562 | 190,195 | 473,757 |
| Instructional Staff | 375,205 | 21,750 | 396,955 |
| Board of Education | 26,370 | | 26,370 |
| Administration | 615,139 | | 615,139 |
| Fiscal | 182,547 | | 182,547 |
| Operation and Maintenance of Plant | 622,115 | | 622,115 |
| Pupil Transportation | 356,051 | | 356,051 |
| Central | 22 | 4,551 | 4,573 |
| Operation of Non-Instructional Services | 1,041 | 305,677 | 306,718 |
| Extracurricular Activities | 187,780 | 118,667 | 306,447 |
| | <hr/> | <hr/> | <hr/> |
| Total Disbursements | 7,666,407 | 819,731 | 8,486,138 |
| Net Change in Fund Balance | (89,191) | (11,207) | (100,398) |
| Fund Balances Beginning of Year | 1,326,133 | 237,387 | 1,563,520 |
| | <hr/> | <hr/> | <hr/> |
| Fund Balances End of Year | \$1,236,942 | \$226,180 | \$1,463,122 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Budgeted Amounts</u> | | | Variance With Final Budget Positive (Negative) |
|---|-------------------------|-------------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Receipts | | | | |
| Property Taxes | \$1,781,395 | \$1,781,395 | \$1,809,519 | \$28,124 |
| Income Tax | 708,859 | 708,859 | 714,246 | 5,387 |
| Intergovernmental | 4,415,388 | 4,415,388 | 4,652,786 | 237,398 |
| Interest | 19,950 | 27,950 | 30,248 | 2,298 |
| Tuition and Fees | 407,193 | 377,193 | 326,437 | (50,756) |
| Rent | 7,200 | 7,200 | 13,040 | 5,840 |
| Gifts and Donations | | | 1,000 | 1,000 |
| Miscellaneous | 1,600 | 1,600 | 3,281 | 1,681 |
| Total Revenues | <u>7,341,585</u> | <u>7,319,585</u> | <u>7,550,557</u> | <u>230,972</u> |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,573,552 | 4,487,344 | 4,263,298 | 224,046 |
| Special | 787,811 | 799,931 | 688,907 | 111,024 |
| Vocational | 57,192 | 60,287 | 57,793 | 2,494 |
| Other | 35,000 | 36,348 | 36,348 | |
| Support Services: | | | | |
| Pupils | 292,072 | 292,353 | 291,353 | 1,000 |
| Instructional Staff | 445,285 | 460,722 | 399,755 | 60,967 |
| Board of Education | 32,864 | 32,889 | 27,232 | 5,657 |
| Administration | 637,275 | 639,000 | 625,421 | 13,579 |
| Fiscal | 194,548 | 194,523 | 183,875 | 10,648 |
| Operation and Maintenance of Plant | 794,326 | 791,121 | 647,548 | 143,573 |
| Pupil Transportation | 399,392 | 411,192 | 384,895 | 26,297 |
| Central | 1,236 | 1,064 | 42 | 1,022 |
| Operation of Non-Instructional Services | 1,098 | 1,698 | 1,041 | 657 |
| Extracurricular Activities | 209,313 | 200,513 | 187,780 | 12,733 |
| Total Expenditures | <u>8,460,964</u> | <u>8,408,985</u> | <u>7,795,288</u> | <u>613,697</u> |
| Excess of Receipts (Under) Disbursements | <u>(1,119,379)</u> | <u>(1,089,400)</u> | <u>(244,731)</u> | <u>844,669</u> |
| Other Financing Sources (Uses) | | | | |
| Refund of Prior Year Receipts | (1,200) | (1,200) | (740) | 460 |
| Refund of Prior Year Expenditures | 17,000 | 22,000 | 22,911 | 911 |
| Total Other Financing Sources (Uses) | <u>15,800</u> | <u>20,800</u> | <u>22,171</u> | <u>1,371</u> |
| Net Change in Fund Balances | <u>(1,103,579)</u> | <u>(1,068,600)</u> | <u>(222,560)</u> | <u>846,040</u> |
| Fund Balances at Beginning of Year | 1,185,720 | 1,185,720 | 1,185,720 | |
| Prior Year Encumbrances Appropriated | 140,413 | 140,413 | 140,413 | |
| Fund Balances at End of Year | <u><u>\$222,554</u></u> | <u><u>\$257,533</u></u> | <u><u>\$1,103,573</u></u> | <u><u>\$846,040</u></u> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

| | <u>Private Purpose Trust</u> | <u>Agency</u> |
|--|----------------------------------|-------------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$25,262</u> | <u>\$26,477</u> |
| Net Assets | | |
| Restricted for Students | | 26,477 |
| Held in Trust for Scholarships | <u>25,262</u> | <u> </u> |
| <i>Total Net Assets</i> | <u>\$25,262</u> | <u>\$26,477</u> |

See accompanying notes to the Basic Financial Statements.

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| | <u>Private Purpose Trust</u> |
|------------------------------|----------------------------------|
| Additions | |
| Gifts and Donations | \$1,425 |
| Interest | <u>122</u> |
| Total Additions | 1,547 |
| Deductions | |
| Other | <u>5,398</u> |
| Changes in Net Assets | (3,851) |
| Net Assets Beginning of Year | <u>29,113</u> |
| Net Assets End of Year | <u><u>\$25,262</u></u> |

See accompanying notes to the Basic Financial Statements.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was originally established in 1885 and consolidated as Arcanum-Butler Local School District through the consolidation of existing land areas and School Districts. The School District serves an area of approximately 54 square miles. It is located in Darke County, and includes all of the Villages of Arcanum, Ithaca, Gordon, and Castine and portions of Twin, Butler, VanBuren, and Neave Townships. It is staffed by 41 non-certificated employees, 83 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,131 students and other community members. The School District currently operates three instructional buildings, one administrative building and one garage.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Reporting Entity

The primary government 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.

B. Component Unit

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and a related organization. These organizations are discussed in Note 10 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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-wide Financial Statement of Activities

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund(s) is eliminated to avoid "doubling up" receipts and disbursements. The School District does not have internal service funds. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. The School District, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support 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 a modified cash basis or draws from the School District's general receipts.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental

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

General Fund - The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

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

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (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 FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund and function level for all funds. Budgetary allocations at the object level within all funds are made by the Treasurer.

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

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

E. Cash, Cash Equivalents, and Investments

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

The balance of the grant activity administered by the fiscal agent is presented on the Statement of Net Assets as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits of the Darke County Educational Service Center.

The School District invests in non-negotiable certificates of deposits, which are reported at cost, and STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$33,996, which included \$5,715 assigned from other School District funds.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements and for the purchase of textbooks and instructional materials.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

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

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, capital improvements and textbooks and instructional materials.

The reserve for capital improvements and textbooks and instructional materials represents money required to be set-aside by state statute for the acquisition and construction of capital improvements and for the purchase of textbooks and instructional materials.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second Half Collections | | 2005 First Half Collections | |
|--|---|----------------|--|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential And Other Real Estate | \$88,756,520 | 92% | \$89,568,270 | 91% |
| Public Utility Personal | 5,850,210 | 6% | 6,377,720 | 7% |
| Tangible Personal Property | 2,376,030 | 2% | 2,421,910 | 2% |
| | <u>\$96,982,760</u> | <u>100%</u> | <u>\$98,367,900</u> | <u>100%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | \$26.18 | | \$26.18 | |

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employees of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from date of purchase, unless matured to a specific obligation or debt of School District and must be purchased with expectations to be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the School District had \$800 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At June 30, 2005, the School District had "Cash and Cash Equivalents with Fiscal Agent" of \$10,330. The money is held by the Darke County Education Service Center, which is the fiscal agent for several School Districts. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Emiko Augsburger, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the School District had a book balance of \$35,215 and a bank balance of \$58,693. None of the School District's bank balance of \$58,693 was exposed to custodial credit risk.

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

B. Investments

As of June 30, 2005, the School District's only investment was STAROhio. The investment is an internal investment pool. The carrying and fair value of the investment was \$1,468,516 with an average maturity.

Interest Rate Risk - As a means of limiting its exposure to fair value losses caused by rising interest rates, investments made by the Treasurer must mature within five (5) years, unless they are matched to a specific obligation or debt of the School District.

Credit Risk - STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) and unrecorded cash which represents amounts received but not included on the budget basis operating statement. This amount is included as revenue on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

| Net Change in Fund Balance | |
|-----------------------------------|--------------------|
| Modified Cash Basis | (\$89,191) |
| Unrecorded Cash Fiscal Year 2005 | (3,748) |
| Adjustment for Encumbrances | (129,621) |
| Budget Basis | <u>(\$222,560)</u> |

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Selective Insurance Company of South Carolina for liability and fleet insurance. Nationwide Insurance Company is the carrier for errors and omissions insurance, while The Cincinnati Insurance Company is the carrier of property insurance, inland marine and electronic data processing coverage.

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

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2005.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. RISK MANAGEMENT

B. Workers' Compensation

For fiscal year 2005 the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve 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. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

C. Employee Medical Benefits

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 10). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$526,457, \$544,935, and \$515,772, respectively; the full amount has been contributed for fiscal years 2004 and 2003, and 83.5% for 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,473 made by the School District and \$7,462 made by the plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$90,898, \$63,975, and \$76,754, respectively; the full amount has been contributed for fiscal years 2004 and 2003, and 42.99% for 2005.

9. POST-EMPLOYMENT BENEFITS

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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$40,497 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,500. For the School District, the amount contributed to fund health care benefits during the 2005 fiscal year equaled \$42,548.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATIONS

A. Jointly Governed Organizations

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 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.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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 \$35,357 for services provided during the year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC 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 2005, the School District paid \$6,767 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representative per area. All others elect one representative per area. All Superintendents except for those from Educational Service Centers vote on the representatives after nominating committee nominates individuals to run. One at-large non-public representative shall be elected by the non-public school SOITA members as 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 2005, the School District paid \$3,209 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

B. Insurance Purchasing Pools

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

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

C. Related Organization

Arcanum Public Library - The Arcanum Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Arcanum-Butler Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. The School District had no financial transactions with the Arcanum Public Library during fiscal year 2001. Financial information can be obtained from the Arcanum Public Library, Roberta J. Brown, Clerk/Treasurer, at 101 North Street, Arcanum, Ohio 45304.

11. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, and such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is not currently party to any legal proceedings.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. SET-ASIDE CALCULATIONS

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

| | Capital Improvements Reserve | Textbooks Instructional Materials Reserve |
|--|---|--|
| Set-aside Reserve Balance as of June 30, 2004 | \$14,929 | \$2,676 |
| Current Year Set-aside Requirement | 150,796 | 150,796 |
| Qualifying Disbursements | (39,903) | (105,303) |
| Total | \$125,822 | \$48,169 |
| Set-aside Balance Carry Forward to Future Fiscal Years | \$125,822 | \$48,169 |

13. 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 modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Arcanum-Butler Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$643,169.
- General receipts accounted for \$6,663,920 in receipts or 83% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$1,388,518 or 17% of total receipts of \$8,052,438.
- The School District had \$8,695,607 in disbursements related to governmental activities; only \$1,388,518 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$6,663,920 were not adequate to provide for these programs by \$643,169.
- The School District's General Fund is the only major fund. The General Fund had \$7,257,135 in receipts and \$7,899,092 in disbursements. The General Fund's balance decreased \$645,957.

Using this Annual Financial Report

A. Report Components

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Arcanum-Butler Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets - Cash Basis and Statement of Activities – Cash Basis provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

B. Basis of Accounting

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities – Cash Basis

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities – Cash Basis answer this question. These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities – Cash Basis, all of the School District's programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non- instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School District as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

**Table 1
Net Assets - Cash Basis**

| | Governmental Activities | |
|--|--------------------------------|-------------|
| | 2004 | 2003 |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,563,520 | \$2,206,689 |
| Net Assets | | |
| Restricted | 254,992 | 234,599 |
| Unrestricted | 1,308,528 | 1,972,090 |
| Total Net Assets | \$1,563,520 | \$2,206,689 |

The above table reflects a decrease in net assets of \$643,169. This decrease was largely due to a decrease in enrollment resulting in less State foundation revenue, as well as an increase in salaries and benefits.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Arcanum-Butler Local School District has prepared financial statements following GASB Statement 34 under the cash method, receipt and disbursement comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Changes in Net Assets**

| | Governmental Activities 2004 |
|--|---|
| Receipts | |
| Program Cash Receipts | |
| Charges for Services | \$796,393 |
| Operating Grants, Contributions and Interest | 556,303 |
| Capital Grants and Contributions | 35,822 |
| Total Program Cash Receipts | 1,388,518 |
| General Receipts | |
| Property Taxes | 1,761,397 |
| Income Tax | 701,841 |
| Grants and Entitlements | 4,150,205 |
| Gifts and Donations | 27,703 |
| Investment Earnings | 20,147 |
| Miscellaneous | 2,627 |
| Total General Receipts | 6,663,920 |
| Total Receipts | 8,052,438 |

(Continued)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Program Disbursements

| | |
|---|--------------------|
| Instruction: | |
| Regular | 4,370,733 |
| Special | 753,060 |
| Vocational | 52,315 |
| Support Services: | |
| Pupil | 449,538 |
| Instructional Staff | 410,865 |
| Board of Education | 21,400 |
| Administration | 626,531 |
| Fiscal | 184,276 |
| Operation and Maintenance of Plant | 665,276 |
| Pupil Transportation | 395,008 |
| Central | 7,032 |
| Operation of Non-Instructional Services | 283,284 |
| Extracurricular Activities | 327,712 |
| Capital Outlay | 148,577 |
| Total Disbursements | <u>8,695,607</u> |
| Increase in Net Assets | <u>(\$643,169)</u> |

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 22% of revenues for governmental activities for the Arcanum-Butler Local School District in fiscal year 2004.

The School District currently has a .75% income tax. This is approximately 9% of revenues for governmental activities for the Arcanum-Butler Local School District in fiscal year 2004.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

**Table 3
Governmental Activities**

| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
|---|-----------------------------------|---------------------------------|
| | <u>2004</u> | <u>2004</u> |
| Program Disbursements | | |
| Instruction: | | |
| Regular | \$4,370,733 | \$3,880,136 |
| Special | 753,060 | 452,825 |
| Vocational | 52,315 | 35,180 |
| Support Services: | | |
| Pupil | 449,538 | 306,954 |
| Instructional Staff | 410,865 | 384,320 |
| Board of Education | 21,400 | 21,400 |
| Administration | 626,531 | 626,531 |
| Fiscal | 184,276 | 184,276 |
| Operation and Maintenance of Plant | 665,276 | 650,351 |
| Pupil Transportation | 395,008 | 385,311 |
| Central | 7,032 | 2,032 |
| Operation of Non-Instructional Services | | |
| Food Service | 283,284 | 12,745 |
| Extracurricular Activities | 327,712 | 216,451 |
| Capital Outlay | 148,577 | 148,577 |
| Total | <u>\$8,695,607</u> | <u>\$7,307,089</u> |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 84% of instruction activities were supported through taxes and other general revenues.

The School District Funds

The School District's major fund is accounted for using the cash-basis of accounting. All governmental funds had total receipts of \$8,052,438 and disbursements of \$8,695,607. The general fund had a decrease in fund balance of \$645,957 due to a combination of factors including a decrease in enrollment and an increase in salaries and health care benefits.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the School District amended its general fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis receipts were \$7,207,709, below original estimates of \$7,304,621. The \$96,912 difference was mainly due to income tax revenues being less than anticipated and state foundation receipts were lower than anticipated.

The School District's ending un-obligated general fund balance was \$1,185,730.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Nicholas A Hamilton, Treasurer at Arcanum-Butler Local School District, 2 Weisenbarger Court, Arcanum, Ohio 45304. Or E-Mail at ab_treas@mdeca.org.

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

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2004**

| | <u>Governmental Activities</u> |
|--|---|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,550,075 |
| Cash and Cash Equivalents with Fiscal Agents | <u>13,445</u> |
| Total Assets | <u><u>\$1,563,520</u></u> |
| Net Assets | |
| Restricted for: | |
| Capital Projects | 728 |
| Set-Asides | 17,605 |
| Other Purposes | 236,659 |
| Unrestricted | <u>1,308,528</u> |
| Total Net Assets | <u><u>\$1,563,520</u></u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Program Cash Receipts | | | Net (Disbursements) Receipts and Changes in Net Assets | |
|---|-----------------------|-------------------------|--|---|--|
| | Cash Disbursements | Charges for Services | Operating Grants, Contributions and Interest | | Capital Grants and Contributions |
| Governmental Activities | | | | Governmental Activities | |
| Instruction: | | | | | |
| Regular | \$4,370,733 | \$407,737 | \$56,735 | \$26,125 | (\$3,880,136) |
| Special | 753,060 | 48,978 | 251,257 | | (452,825) |
| Vocational | 52,315 | 3,498 | 13,637 | | (35,180) |
| Support Services: | | | | | |
| Pupil | 449,538 | | 142,584 | | (306,954) |
| Instructional Staff | 410,865 | | 26,545 | | (384,320) |
| Board of Education | 21,400 | | | | (21,400) |
| Administration | 626,531 | | | | (626,531) |
| Fiscal | 184,276 | | | | (184,276) |
| Operation and Maintenance of Plant | 665,276 | 14,925 | | | (650,351) |
| Pupil Transportation | 395,008 | | | 9,697 | (385,311) |
| Central | 7,032 | | 5,000 | | (2,032) |
| Operation of Non-Instructional Services | 283,284 | 209,994 | 60,545 | | (12,745) |
| Extracurricular Activities | 327,712 | 111,261 | | | (216,451) |
| Capital Outlay | 148,577 | | | | (148,577) |
| Totals | \$8,695,607 | \$796,393 | \$556,303 | \$35,822 | (7,307,089) |
| General Receipts | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 1,761,397 |
| Income Tax | | | | | 701,841 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 4,150,205 |
| Gifts and Donations | | | | | 27,703 |
| Investment Earnings | | | | | 20,147 |
| Miscellaneous | | | | | 2,627 |
| <i>Total General Receipts</i> | | | | | <u>6,663,920</u> |
| <i>Change in Net Assets</i> | | | | | (643,169) |
| <i>Net Assets Beginning of Year</i> | | | | | <u>2,206,689</u> |
| <i>Net Assets End of Year</i> | | | | | <u><u>\$1,563,520</u></u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2004**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------------|---|---|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,308,528 | \$223,942 | \$1,532,470 |
| Cash and Cash Equivalents with Fiscal Agent | | 13,445 | 13,445 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 17,605 | | 17,605 |
| Total Assets | <u>1,326,133</u> | <u>237,387</u> | <u>1,563,520</u> |
| Fund Balances | | | |
| Reserved for Encumbrances | 140,403 | 31,173 | 171,576 |
| Reserved for Capital Improvements | 14,929 | | 14,929 |
| Reserved for Textbooks | 2,676 | | 2,676 |
| Reserved for Property Taxes | 160,022 | | 160,022 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 1,008,103 | | 1,008,103 |
| Special Revenue Funds | | 206,184 | 206,184 |
| Capital Projects Funds | | 30 | 30 |
| Total Fund Balances | <u>\$1,326,133</u> | <u>\$237,387</u> | <u>\$1,563,520</u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | General | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|---|---|
| Receipts | | | |
| Property Taxes | \$1,761,397 | | \$1,761,397 |
| Income Taxes | 701,841 | | 701,841 |
| Intergovernmental | 4,357,669 | \$383,491 | 4,741,160 |
| Interest | 20,147 | 1,170 | 21,317 |
| Charges for Services | | 209,994 | 209,994 |
| Tuition and Fees | 398,329 | 37,567 | 435,896 |
| Rent | 14,925 | | 14,925 |
| Gifts and Donations | 200 | 27,503 | 27,703 |
| Extracurricular Activities | | 135,578 | 135,578 |
| Miscellaneous | 2,627 | | 2,627 |
| <i>Total Receipts</i> | <u>7,257,135</u> | <u>795,303</u> | <u>8,052,438</u> |
| Disbursements | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 4,220,659 | 150,074 | 4,370,733 |
| Special | 688,720 | 64,340 | 753,060 |
| Vocational | 51,332 | 983 | 52,315 |
| Support Services: | | | |
| Pupil | 319,684 | 129,854 | 449,538 |
| Instructional Staff | 377,204 | 33,661 | 410,865 |
| Board of Education | 21,400 | | 21,400 |
| Administration | 626,531 | | 626,531 |
| Fiscal | 184,276 | | 184,276 |
| Operation and Maintenance of Plant | 665,276 | | 665,276 |
| Pupil Transportation | 395,008 | | 395,008 |
| Central | 900 | 6,132 | 7,032 |
| Operation of Non-Instructional Services | 901 | 282,383 | 283,284 |
| Extracurricular Activities | 198,624 | 129,088 | 327,712 |
| Capital Outlay | 148,577 | | 148,577 |
| <i>Total Disbursements</i> | <u>7,899,092</u> | <u>796,515</u> | <u>8,695,607</u> |
| <i>Excess of Receipts Under Disbursements</i> | <u>(641,957)</u> | <u>(1,212)</u> | <u>(643,169)</u> |
| Other Financing Sources (Uses) | | | |
| Transfer - In | | 4,000 | 4,000 |
| Transfer - Out | (4,000) | | (4,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(4,000)</u> | <u>4,000</u> | |
| <i>Net Change in Fund Balance</i> | <u>(645,957)</u> | <u>2,788</u> | <u>(643,169)</u> |
| <i>Fund Balances Beginning of Year</i> | <u>1,972,090</u> | <u>234,599</u> | <u>2,206,689</u> |
| <i>Fund Balances End of Year</i> | <u>\$1,326,133</u> | <u>\$237,387</u> | <u>\$1,563,520</u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | <u>Budgeted Amount</u> | | <u>Actual</u> | <u>Variance With Final Budget Positive (Negative)</u> |
|---|------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Receipts | | | | |
| Property Taxes | \$1,755,608 | \$1,764,494 | \$1,761,397 | (\$3,097) |
| Income Tax | 736,388 | 696,388 | 701,841 | 5,453 |
| Intergovernmental | 4,435,217 | 4,324,118 | 4,357,669 | 33,551 |
| Interest | 40,000 | 24,935 | 20,147 | (4,788) |
| Tuition and Fees | 322,908 | 336,533 | 349,840 | 13,307 |
| Rent | 6,000 | 10,225 | 14,925 | 4,700 |
| Gifts and Donations | | 100 | 200 | 100 |
| Miscellaneous | 8,500 | 2,327 | 2,627 | 300 |
| Total Revenues | <u>7,304,621</u> | <u>7,159,120</u> | <u>7,208,646</u> | <u>49,526</u> |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,343,281 | 4,334,526 | 4,215,656 | 118,870 |
| Special | 708,828 | 738,357 | 708,817 | 29,540 |
| Vocational | 54,554 | 54,653 | 52,484 | 2,169 |
| Other | 23,338 | 32,587 | 32,587 | |
| Support Services: | | | | |
| Pupils | 343,582 | 344,859 | 320,521 | 24,338 |
| Instructional Staff | 455,060 | 463,150 | 380,323 | 82,827 |
| Board of Education | 30,705 | 33,553 | 28,764 | 4,789 |
| Administration | 677,887 | 660,244 | 634,843 | 25,401 |
| Fiscal | 197,547 | 192,757 | 191,654 | 1,103 |
| Business | | | | |
| Operation and Maintenance of Plant | 619,224 | 710,436 | 709,642 | 794 |
| Pupil Transportation | 437,465 | 426,569 | 414,394 | 12,175 |
| Central | 2,142 | 936 | 936 | |
| Operation of Non-Instructional Services | 640 | 1,315 | 901 | 414 |
| Extracurricular Activities | 194,162 | 199,573 | 198,624 | 949 |
| Capital Outlay | 148,577 | 148,577 | 148,577 | |
| Total Expenditures | <u>8,236,992</u> | <u>8,342,092</u> | <u>8,038,723</u> | <u>303,369</u> |
| Excess of Receipts (Under) Disbursements | <u>(932,371)</u> | <u>(1,182,972)</u> | <u>(830,077)</u> | <u>352,895</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Fixed Assets | | 100 | | (100) |
| Refund of Prior Year Receipts | (673) | (773) | (773) | |
| Refund of Prior Year Expenditures | | 48,489 | 48,489 | |
| Other Financing Uses | (20,000) | | | |
| Transfers - Out | | (4,000) | (4,000) | |
| Total Other Financing Sources (Uses) | <u>(20,673)</u> | <u>43,816</u> | <u>43,716</u> | <u>(100)</u> |
| Net Change in Fund Balances | (953,044) | (1,139,156) | (786,361) | 352,795 |
| Fund Balances at Beginning of Year | 1,834,112 | 1,834,112 | 1,834,112 | |
| Prior Year Encumbrances Appropriated | 137,979 | 137,979 | 137,979 | |
| Fund Balances at End of Year | <u>\$1,019,047</u> | <u>\$832,935</u> | <u>\$1,185,730</u> | <u>\$352,795</u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2004**

| | <u>Private Purpose Trust</u> | <u>Agency</u> |
|--|----------------------------------|------------------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$29,113</u> | <u>\$20,342</u> |
| Net Assets | | |
| Restricted for Students | | 20,342 |
| Held in Trust for Scholarships | <u>29,113</u> | <u> </u> |
| <i>Total Net Assets</i> | <u><u>\$29,113</u></u> | <u><u>\$20,342</u></u> |

See Accompanying Notes to the Basic Financial Statements.

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | <u>Private Purpose Trust</u> |
|-------------------------------------|----------------------------------|
| Additions | |
| Gifts and Contributions | \$500 |
| Interest | <u>289</u> |
| <i>Total Additions</i> | 789 |
| Deductions | |
| Other | <u>4,071</u> |
| <i>Change in Net Assets</i> | (3,282) |
| <i>Net Assets Beginning of Year</i> | <u>32,395</u> |
| <i>Net Assets End of Year</i> | <u><u>\$29,113</u></u> |

See Accompanying Notes to the Basic Financial Statements.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was originally established in 1885 and consolidated as Arcanum-Butler Local School District through the consolidation of existing land areas and School Districts. The School District serves an area of approximately 54 square miles. It is located in Darke County, and includes all of the Villages of Arcanum, Ithaca, Gordon, and Castine and portions of Twin, Butler, VanBuren, and Neave Townships. It is staffed by 41 non-certificated employees, 79 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,094 students and other community members. The School District currently operates three instructional buildings, one administrative building and one garage.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Arcanum-Butler Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and a related organization. These organizations are discussed in Note 10 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 FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash-basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The School District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

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 management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The District classifies each fund as either governmental or fiduciary.

1. Governmental

The 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:

2. 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 is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

3. Fiduciary Fund Type

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust funds are private purpose trusts which accounts for various college scholarship program for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency funds accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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 assets and statement of activities and fund financial statements providing more detailed financial information.

1. Government-wide Financial Statement of Activities

This statement displays information about the School District as a whole, except for fiduciary funds. The statement reports governmental activities separately from business-type activities, if any.

The government-wide statement of activities compares disbursements with program receipts for each function or program 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 business segment or 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 more detailed information about the School District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by type.

C. Cash, Cash Equivalents, and Investments

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

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

During fiscal year 2004, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2004 was \$20,147, including \$2,948 assigned from other School District funds.

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments, or enabling legislation are the sources of the restrictions. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for capital Improvements and the purchase of textbooks. See Note 12 for additional information regarding these set-asides.

E. Inventory and Prepaid Items

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

F. Capital Assets

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

G. Compensated Absences

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.

H. Long-term Obligations

These cash-basis financial statements do not report liabilities for bonds and other long-term obligations.

I. Fund Balance Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. Fund equity reserves have been established for encumbrances, capital improvements, textbooks, and property taxes.

The reserve for property taxes represents taxes available against the first real estate tax settlement in fiscal year 2005 but not available for appropriation under State statute.

J. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws, or regulations of other governments have imposed limitations on their use.

The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

L. Budgetary Process

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund and function level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Advances-in and advances-out are not required to be budgeted since they represent a cash flow resource and are intended to be repaid.

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

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

3. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. PROPERTY TAXES (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2004, was \$160,022 in the General Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

| | 2003 Second Half Collections | | 2004 First Half Collections | |
|--|---|----------------|--|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$87,417,330 | 91% | \$88,756,520 | 92% |
| Public Utility Personal | 5,947,670 | 6% | 5,850,210 | 6% |
| Tangible Personal Property | 3,129,610 | 3% | 2,376,030 | 2% |
| | <u>\$96,494,610</u> | <u>100%</u> | <u>\$96,982,760</u> | <u>100%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | \$26.18 | | \$26.18 | |

4. INCOME TAX

The School District levies a voted tax of three-fourths of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employees of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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 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 marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand - At fiscal year-end, the School District had \$800 in undeposited cash on hand which is included on the statement of net assets of the school district as part of "equity in pooled cash and cash equivalents."

Deposits - At fiscal year-end, the carrying amount of the School District's deposits was \$217,180 and the bank balance was \$245,871. \$106,477 of the bank balance was covered by federal depository insurance and \$139,394 considered uninsured and uncollateralized. 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, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments - The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at June 30, 2004, was \$1,381,550.

At June 30, 2004, the School District had "cash and cash equivalents with fiscal agent" of \$13,445. The money is held by the Darke County Education Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk under GASB Statement No. 3. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Emiko Augsburger, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

| | Cash and Cash Equivalents/Deposits | Investments |
|---|---|--------------------|
| GASB Statement No. 9 | \$1,612,975 | \$ 0 |
| Cash On Hand | (800) | 0 |
| Cash and Cash Equivalents with Fiscal Agent | (13,445) | 0 |
| STAR Ohio | (1,381,550) | 1,381,550 |
| GASB Statement No. 3 | \$ 217,180 | \$1,381,550 |

6. INTERFUND TRANSFERS

During the year, the general fund transferred \$4,000 to the uniform school supplies special revenue fund, to reduce a deficit cash balance.

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance Company of South Carolina for liability and fleet insurance. Nationwide Insurance Company is the carrier for errors and omissions insurance, while The Cincinnati Insurance Company is the carrier of property insurance, inland marine and electronic data processing coverage.

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

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2004.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Intergrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 10). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$544,935, \$515,772, and \$364,356, respectively; 83.98 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,941 made by the School District and \$3,888 made by the plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$75,233, \$76,754, and \$42,628, respectively; 42.61 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

9. POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$41,918 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$64,554.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATIONS

A. Jointly Governed Organizations

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 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 \$23,591 for services provided during the year from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The 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. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from the general fund. During fiscal year 2004, the School District paid 48,861 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state of local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, the School District paid \$6,387 to SOITA for services provided during the fiscal year. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

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

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

C. Related Organization

Arcanum Public Library - The Arcanum Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Arcanum-Butler Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. The School District had no financial transactions with the Arcanum Public Library during fiscal year 2004. Financial information can be obtained from the Arcanum Public Library, Roberta J. Brown, Clerk/Treasurer, at 101 North Street, Arcanum, Ohio 45304.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is not currently party to any legal proceedings.

12. SET-ASIDE CALCULATIONS

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for capital improvements and for textbooks. State statute requires disclosing this information.

| | Capital Improvements | Textbooks |
|--|---------------------------------|------------------|
| Set-aside Reserve Balance as of June 30, 2003 | \$69,959 | \$0 |
| Current Year Set-aside Requirement | 152,112 | 152,112 |
| Qualifying Disbursements | (207,142) | (149,436) |
| Total | \$14,929 | \$2,676 |
| Set-aside Balance Carry Forward to Future Fiscal Years | \$14,929 | \$2,676 |

13. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed " . . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . . "

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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

**NOTES FOR THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) and unrecorded cash which represents amounts received but not included on the budget basis operating statement. This amount is included as revenue on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance

| | |
|-----------------------------|---------------------------|
| Modified Cash Basis | (\$645,957) |
| Adjustment for Encumbrances | <u>(140,404)</u> |
| Budget Basis | <u><u>(\$786,361)</u></u> |

15. COMPLIANCE

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Arcanum-Butler Local School District, Darke County, (the District), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2005, wherein we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 7, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2005-001. In a separate letter to the District's management dated December 7, 2005, we reported a matter related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 7, 2005

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

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

| |
|---|
| FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

FINDING NUMBER 2005-001

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

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

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

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

**SCHEDULE OF PRIOR AUDIT FINDING
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

| Finding Number | Finding Summary | Fully Corrected | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|---|-----------------|--|
| 2003-001 | Finding for Recovery for an overpayment in severance pay due to a miscalculation. | Yes | Was repaid while under audit during the prior audit period. |



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

ARCANUM-BUTLER LOCAL SCHOOL DISTRICT

DARKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2006**