



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 1999 AND JUNE 30, 1998



**JIM PETRO
AUDITOR OF STATE**

STATE OF OHIO

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Arcanum-Butler Local School District, Darke County, (the "School District") as of and for the years ended June 30, 1999 and 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the School District, as of June 30, 1999 and 1998, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2000, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

JIM PETRO
Auditor of State

January 21, 2000

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 1999**

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,535,486	\$125,728	\$80,118
Cash and Cash Equivalents:			
With Fiscal Agents	0	26,620	0
Investments	0	0	0
Receivables:			
Property and Other Taxes	1,298,827	0	0
Income Taxes	249,023	0	0
Accounts	3,091	18,484	0
Intergovernmental	2,484	0	90,726
Accrued Interest	2,473	0	0
Prepaid Items	30,206	0	0
Inventory Held for Resale	0	0	0
Inventory of Supplies and Materials	1,142	0	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	95,641	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0
Total Assets and Other Debits	\$3,218,373	\$170,832	\$170,844
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	\$69,926	\$2,295	\$9,461
Contracts Payable	0	0	14,451
Accrued Wages and Benefits Payable	645,095	15,955	0
Compensated Absences Payable	42,136	0	0
Intergovernmental Payable	115,373	0	0
Deferred Revenue	1,155,807	0	0
Due to Students	0	0	0
Energy Conservation Note Payable	0	0	0
Early Retirement Incentive Payable	0	0	0
Total Liabilities	2,028,337	18,250	23,912
Fund Equity and Other Credits:			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Bus Purchase	93	0	0
Reserved for Encumbrances	95,193	14,209	39,783
Reserved for Inventory	1,142	0	0
Reserved for Property Taxes	143,020	0	0
Reserved for Textbooks & Instructional Matl.	15,819	0	0
Reserved for Capital Improvements	359	0	0
Reserved for Budget Stabilization	79,370	0	0
Reserved for Non-Expendable Trust Fund	0	0	0
Unreserved Designated	103,670	0	0
Unreserved, Undesignated	751,370	138,373	107,149
Total Fund Equity and Other Credits	1,190,036	152,582	146,932
Total Liabilities, Fund Equity, and Other Credits	\$3,218,373	\$170,832	\$170,844

See Accompanying Notes to the General Purpose Financial Statements

PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
		GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
ENTERPRISE	TRUST AND AGENCY			
\$135,443	\$29,315	\$0	\$0	\$1,906,090
0	0	0	0	26,620
0	4,192	0	0	4,192
0	0	0	0	1,298,827
0	0	0	0	249,023
1,925	0	0	0	23,500
7,608	0	0	0	100,818
0	127	0	0	2,600
1,137	0	0	0	31,343
6,485	0	0	0	6,485
2,258	0	0	0	3,400
0	0	0	0	95,641
28,672	0	5,193,192	0	5,221,864
0	0	0	629,007	629,007
<u>\$183,528</u>	<u>\$33,634</u>	<u>\$5,193,192</u>	<u>\$629,007</u>	<u>\$9,599,410</u>

\$2,831	\$0	\$0	\$0	\$84,513
0	0	0	0	14,451
17,686	0	0	0	678,736
7,398	0	0	400,556	450,090
11,960	0	0	45,951	173,284
4,569	0	0	0	1,160,376
0	9,332	0	0	9,332
0	0	0	152,500	152,500
0	0	0	30,000	30,000
<u>44,444</u>	<u>9,332</u>	<u>0</u>	<u>629,007</u>	<u>2,753,282</u>

0	0	5,193,192	0	5,193,192
139,084	0	0	0	139,084
0	0	0	0	93
0	0	0	0	149,185
0	0	0	0	1,142
0	0	0	0	143,020
0	0	0	0	15,819
0	0	0	0	359
0	0	0	0	79,370
0	4,180	0	0	4,180
0	0	0	0	103,670
0	20,122	0	0	1,017,014
<u>139,084</u>	<u>24,302</u>	<u>5,193,192</u>	<u>0</u>	<u>6,846,128</u>
<u>\$183,528</u>	<u>\$33,634</u>	<u>\$5,193,192</u>	<u>\$629,007</u>	<u>\$9,599,410</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	EXPENDABLE TRUST	
Revenues:					
Property and Other Taxes	\$1,325,504	\$0	\$0	\$0	\$1,325,504
Income Taxes	679,354	0	0	0	679,354
Tuition and Fees	91,680	0	0	0	91,680
Interest	110,722	0	0	426	111,148
Intergovernmental	3,645,013	211,687	267,561	0	4,124,261
Extracurricular Activities	0	136,228	0	0	136,228
Gifts and Donations	410	15,640	0	0	16,050
Miscellaneous	3,259	0	0	0	3,259
Total Revenues	5,855,942	363,555	267,561	426	6,487,484
Expenditures:					
Current:					
Instruction:					
Regular	2,987,585	39,360	152,129	0	3,179,074
Special	538,835	74,796	0	0	613,631
Vocational	51,377	0	0	0	51,377
Other	23,590	0	0	0	23,590
Support Services:					
Pupils	224,013	41,474	0	0	265,487
Instructional Staff	372,484	37,741	1,063	0	411,288
Board of Education	20,680	0	0	0	20,680
Administration	495,690	0	0	0	495,690
Fiscal	133,969	0	0	0	133,969
Operation and Maintenance of Plant	449,160	0	0	1,900	451,060
Pupil Transportation	386,995	0	0	0	386,995
Central	2,597	2,245	0	0	4,842
Operation of Non-Instructional Services	519	244	0	0	763
Extracurricular Activities	152,427	107,440	0	0	259,867
Capital Outlay	15,504	0	336,618	0	352,122
Debt Service:					
Principal Retirement	32,500	0	0	0	32,500
Interest and Fiscal Charges	11,008	0	0	0	11,008
Total Expenditures	5,898,933	303,300	489,810	1,900	6,693,943
Excess of Revenues Over (Under) Expenditures	(42,991)	60,255	(222,249)	(1,474)	(206,459)
Other Financing Uses:					
Operating Transfers Out	(4,163)	0	0	0	(4,163)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(47,154)	60,255	(222,249)	(1,474)	(210,622)
Fund Balances at Beginning of Year	1,255,610	92,327	369,181	21,457	1,738,575
Decrease in Reserve for Inventory	(18,420)	0	0	0	(18,420)
Fund Balances at End of Year	\$1,190,036	\$152,582	\$146,932	\$19,983	\$1,509,533

See Accompanying Notes to the General Purpose Financial Statements

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Property and Other Taxes	\$1,308,521	\$1,308,521	\$0	\$0	\$0	\$0
Income Tax	662,416	662,416	0	0	0	0
Tuition and Fees	94,841	95,613	772	0	0	0
Interest	102,197	102,390	193	0	0	0
Intergovernmental	3,653,521	3,653,614	93	170,318	170,318	0
Extracurricular Activities	0	0	0	135,909	136,614	705
Gifts and Donations	0	410	410	15,640	15,640	0
Miscellaneous	500	2,884	2,384	0	0	0
Total Revenues	5,821,996	5,825,848	3,852	321,867	322,572	705
Expenditures:						
Current:						
Instruction:						
Regular	3,071,392	2,951,207	120,185	94,668	45,848	48,820
Special	513,816	509,220	4,596	98,937	73,390	25,547
Vocational	52,491	51,467	1,024	0	0	0
Other	43,120	23,591	19,529	0	0	0
Support Services:						
Pupils	226,125	223,785	2,340	42,226	41,553	673
Instructional Staff	380,070	360,360	19,710	32,920	28,181	4,739
Board of Education	28,186	20,537	7,649	0	0	0
Administration	515,436	490,228	25,208	0	0	0
Fiscal	146,403	133,624	12,779	0	0	0
Operation and Maintenance of Plant	756,979	682,380	74,599	0	0	0
Pupil Transportation	432,562	390,529	42,033	0	0	0
Central	4,696	2,614	2,082	2,827	2,245	582
Operation of Non-Instructional Services	700	519	181	602	280	322
Extracurricular Activities	154,246	152,280	1,966	121,000	113,273	7,727
Capital Outlay	33,073	30,504	2,569	0	0	0
Debt Service:						
Principal Retirement	32,500	32,500	0	0	0	0
Interest and Fiscal Charges	11,008	11,008	0	0	0	0
Total Expenditures	6,402,803	6,066,353	336,450	393,180	304,770	88,410
Excess of Revenues Over (Under) Expenditures	(580,807)	(240,505)	340,302	(71,313)	17,802	89,115
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	317	317	0	0	0	0
Operating Transfers - Out	(4,163)	(4,163)	0	0	0	0
Other Financing Uses	(18,449)	0	18,449	0	0	0
Total Other Financing Sources (Uses)	(22,295)	(3,846)	18,449	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(603,102)	(244,351)	358,751	(71,313)	17,802	89,115
Fund Balances at Beginning of Year	1,446,859	1,446,859	0	88,098	88,098	0
Prior Year Encumbrances Appropriated	179,519	179,519	0	6,901	6,901	0
Fund Balances at End of Year	\$1,023,276	\$1,382,027	\$358,751	\$23,686	\$112,801	\$89,115

See Accompanying Notes to the General Purpose Financial Statements

CAPITAL PROJECTS FUNDS			EXPENDABLE TRUST FUNDS		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	390	426	36
176,835	176,835	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
176,835	176,835	0	390	426	36
198,792	192,024	6,768	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
4,522	4,517	5	3,000	3,000	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	2,000	1,900	100
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
336,167	336,167	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
539,481	532,708	6,773	5,000	4,900	100
(362,646)	(355,873)	6,773	(4,610)	(4,474)	136
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(362,646)	(355,873)	6,773	(4,610)	(4,474)	136
139,241	139,241	0	21,457	21,457	0
246,504	246,504	0	0	0	0
\$23,099	\$29,872	\$6,773	\$16,847	\$16,983	\$136

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
	<u>ENTERPRISE</u>	<u>NONEXPENDABLE TRUST</u>	
Operating Revenues:			
Sales	\$238,097	\$0	\$238,097
Interest	0	229	229
Miscellaneous	127	0	127
Total Operating Revenues	<u>238,224</u>	<u>229</u>	<u>238,453</u>
Operating Expenses:			
Salaries and Wages	99,498	0	99,498
Fringe Benefits	25,251	0	25,251
Purchased Services	4,421	0	4,421
Supplies and Materials	20,858	0	20,858
Cost of Sales	163,734	0	163,734
Other Operating Expenses	0	255	255
Depreciation	4,127	0	4,127
Total Operating Expenses	<u>317,889</u>	<u>255</u>	<u>318,144</u>
Operating Loss	<u>(79,665)</u>	<u>(26)</u>	<u>(79,691)</u>
Non-Operating Revenues and (Expenses):			
Interest	7,859	0	7,859
Federal Donated Commodities	24,640	0	24,640
Federal and State Subsidies	56,129	0	56,129
Loss on Disposal of Fixed Assets	(1,053)	0	(1,053)
Total Non-Operating Revenues and (Expenses)	<u>87,575</u>	<u>0</u>	<u>87,575</u>
Income (Loss) Before Operating Transfers	7,910	(26)	7,884
Operating Transfers-In	<u>4,163</u>	<u>0</u>	<u>4,163</u>
Net Income (Loss)	12,073	(26)	12,047
Retained Earnings/Fund Balance at Beginning of Year	<u>127,011</u>	<u>4,345</u>	<u>131,356</u>
Retained Earnings/Fund Balance at End of Year	<u><u>\$139,084</u></u>	<u><u>\$4,319</u></u>	<u><u>\$143,403</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	ENTERPRISE FUNDS			NONEXPENDABLE TRUST FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Sales	\$230,708	\$238,357	\$7,649	\$0	\$0	\$0
Interest	0	0	0	261	262	1
Federal and State Subsidies	55,186	55,731	545	0	0	0
Interest	7,354	7,354	0	0	0	0
Total Revenues	293,248	301,442	8,194	261	262	1
Expenses:						
Salaries	96,788	96,788	0	0	0	0
Fringe Benefits	27,502	26,840	662	0	0	0
Purchased Services	4,991	4,991	0	0	0	0
Supplies and Materials	180,430	157,728	22,702	0	0	0
Capital Outlay	17,156	16,638	518	0	0	0
Other Operating Expenses	0	0	0	261	255	6
Total Expenses	326,867	302,985	23,882	261	255	6
Excess of Revenues Over (Under) Expenses Before Operating Transfers	(33,619)	(1,543)	32,076	0	7	7
Operating Transfer-In	4,163	4,163	0	0	0	0
Excess of Revenues and Operating Transfers Over (Under) Expenses	(29,456)	2,620	32,076	0	7	7
Fund Equity at Beginning of Year	119,445	119,445	0	4,184	4,184	0
Prior Year Encumbrances Appropriated	5,187	5,187	0	0	0	0
Fund Equity at End of Year	\$95,176	\$127,252	\$32,076	\$4,184	\$4,191	\$7

See Accompanying Notes to the General Purpose Financial Statements

COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	NONEXPENDABLE TRUST	
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$238,357	\$0	\$238,357
Nonexpendable Trust Fund Interest	0	0	0
Cash Payments to Employees for Services and Benefits	(123,628)	0	(123,628)
Cash Payments to Suppliers for Goods and Services	(167,300)	0	(167,300)
Cash Payments to Students for Scholarship	0	(255)	(255)
Net Cash Provided Used In Operating Activities	<u>(52,571)</u>	<u>(255)</u>	<u>(52,826)</u>
Cash Flows from Noncapital Financing Activities:			
Federal and State Subsidies Received	55,731	0	55,731
Operating Transfer-In	4,163	0	4,163
Net Cash Provided By Noncapital Financing Activities	<u>59,894</u>	<u>0</u>	<u>59,894</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(4,370)	0	(4,370)
Net Cash Used In Capital and Related Financing Activities	<u>(4,370)</u>	<u>0</u>	<u>(4,370)</u>
Cash Flows from Investing Activities:			
Purchase of Investments	0	(7)	(7)
Interest	7,859	262	8,121
Net Cash Provided by Investing Activities	<u>7,859</u>	<u>255</u>	<u>8,114</u>
Net Increase in Cash and Cash Equivalents	10,812	0	10,812
Cash and Cash Equivalents Beginning of Year	<u>124,631</u>	<u>0</u>	<u>124,631</u>
Cash and Cash Equivalents End of Year	<u>\$135,443</u>	<u>\$0</u>	<u>\$135,443</u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:			
Operating Loss	(\$79,665)	(\$26)	(\$79,691)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:			
Depreciation	4,127	0	4,127
Donated Commodities Received	24,640	0	24,640
Interest for Nonexpendable Trust Fund	0	(262)	(262)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	134	0	134
Decrease in Accrued Interest Receivable	0	33	33
Increase in Prepaid Items	(207)	0	(207)
Increase in Supplies Inventory	(443)	0	(443)
Increase in Inventory Held for Resale	(231)	0	(231)
Decrease in Accounts Payable	(910)	0	(910)
Increase in Accrued Salaries Payable	1,015	0	1,015
Decrease in Intergovernmental Payable	(2,726)	0	(2,726)
Increase in Compensated Absences Payable	1,695	0	1,695
Net Cash Used In Operating Activities	<u>(\$52,571)</u>	<u>(\$255)</u>	<u>(\$52,826)</u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Fund to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		\$29,315	
Cash and Cash Equivalents-Expendable Trust and Agency Funds		<u>(29,315)</u>	
Cash and Cash Equivalents-Nonexpendable Trust Fund		<u>\$0</u>	

See Accompanying Notes to the General Purpose Financial Statements

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 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/or 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, 76 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,215 students and other community members. The School District currently operates 3 instructional buildings, 1 administrative building, and 1 garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District 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 is associated with several organizations which are defined as jointly governed organizations, an insurance purchasing pool, and a related organization. These organizations include the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Arcanum Public Library. These organizations are presented in Notes 16, 17, and 18 of the general purpose financial statements.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Arcanum-Butler Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Fund Type:

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

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The nonexpendable trust fund is accounted for in essentially the same manner as proprietary funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District does not have contributed capital. Proprietary and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxpayer-assessed income taxes, interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type and the nonexpendable trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Darke County Budget Commission for rate determination.

Estimated Resources:

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

The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

Appropriations:

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

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

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

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

During fiscal year 1999, the School District invested in the State Treasury Assets Reserve of Ohio (STAR Ohio) and certificates of deposit. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$110,722, which includes \$14,565 assigned from other School District funds. The expendable, nonexpendable trust, and food service funds also received interest revenue of \$426, \$229, and \$7,859 respectively.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

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

The School District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. The School District currently participates in several State and Federal programs, categorized as follows:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Entitlements

General Fund

State Foundation Program
State Property Tax Relief
School Bus Purchase Program

Special Revenue Funds

Textbook Subsidy

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems
Title I
Title VI
Title VI-B
Drug-Free Schools
Teacher Development
Early Childhood
Public School Preschool
Career Ed
Family School Partnership Initiative
Eisenhower Math and Science
Continuous Improvement Development
Vocational Education
Handicapped Preschool
Transition Funding

Capital Projects Funds

School Net
School Net Plus
Technology Equity
Emergency Repair Grant
Interactive Video Distance Learning

Reimbursable Grants

General Fund

Driver Education

Proprietary Funds

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 64 percent of the School District's operating revenue during the 1999 fiscal year.

I. Interfund Assets/Liabilities

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

The Arcanum-Butler Local School District offers an early retirement incentive to certified employees. The contract with the Arcanum-Butler Classroom Teachers' Association runs from July 1, 1998 through June 30, 2001 and offers a retirement incentive for FY99 and FY00. The incentive is granted to a Qualifying Teacher, who has attained or will attain at least thirty years of service credit to apply toward pension calculation under the State Teachers' Retirement System, or a teacher who is 65 years of age and otherwise eligible to retire under rules of the State Teachers' Retirement System. The incentive is \$1,000 per year of service with the Board, not to exceed \$10,000. Payment is made in one lump sum when the amount of the incentive has been recouped, as determined by the Treasurer, but no later than fourteen months following the effective date of the retirement. A qualified Teacher who missed the February 1, 1999 or February 1, 2000 deadline, as the case may be, forfeits his/her right to the incentive. In FY99 three Qualifying Teachers applied for the incentive and will be paid their incentive in FY00. The early retirement incentive liability of \$30,000 is reflected in the general long-term obligations account group.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available financial resources. Long-term loans are reported as a liability of the general long-term obligations account group until due. Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Interfund Transactions

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

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

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District for the purchase of textbooks, for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 19 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

N. Fund Balance Reserves and Designations

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, property taxes, budget stabilization, textbook purchases, capital acquisition, school bus purchases, and endowments.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for endowments signifies the legal restrictions on the use of principal.

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designations reflect the School District's intentions and are subject to change. Designations are reported as part of unreserved fund balance. The designation arises since amounts set-aside for HB412 purposes exceed the statutory amount(s).

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Total Columns on General Purpose Financial Statements

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Types and Nonexpendable Trust Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust fund and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

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

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	(\$47,154)	\$60,255	(\$222,249)	(\$1,474)
Revenue Accruals	(29,777)	(24,085)	(90,726)	0
Prepaid Items	1,841	0	0	0
Expenditure Accruals	71,931	1,639	7,347	0
Encumbrances	(241,192)	(12,892)	(50,243)	(3,000)
Non Budgeted Fund Activity	<u>0</u>	<u>(7,115)</u>	<u>0</u>	<u>0</u>
Budget Basis	<u>(\$244,351)</u>	<u>\$17,802</u>	<u>(\$355,873)</u>	<u>(\$4,474)</u>

**Net Income (Loss)/Excess of Revenues and Operating Transfer Over (Under) Expenses,
Proprietary Fund Type and Nonexpendable Trust Fund**

	Enterprise	Nonexpendable Trust
GAAP Basis	\$12,073	\$(26)
Revenue Accruals	(770)	33
Expense Accruals	(984)	0
Prepaid Items	207	0
Materials and Supplies Inventory	443	0
Inventory Held for Resale	(421)	0
Capital Outlay	(4,370)	0
Depreciation Expense	4,127	0
Encumbrances	<u>(7,685)</u>	<u>0</u>
Budget Basis	<u>\$2,620</u>	<u>\$7</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

State statute permits inactive monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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.

At fiscal year end, the School District had \$650 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$26,620 shown in the special revenue funds is maintained with the Darke County Educational Service Center. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$32,134 and the bank balance was \$86,435, all of which was covered by federal depository insurance.

Investments: The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The only School District investment at year end was STAR Ohio. It is an unclassified investment with a carrying value and a market value of \$1,973,139.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$2,028,351	\$4,192
Cash on Hand	(650)	0
Cash and Cash Equivalents with Fiscal Agents	(26,620)	0
Investments:		
Certificate of Deposit	4,192	(4,192)
STAR Ohio	<u>(1,973,139)</u>	<u>1,973,139</u>
GASB Statement 3	<u>\$ 32,134</u>	<u>\$1,973,139</u>

NOTE 5 - PROPERTY TAXES

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 5 - PROPERTY TAXES (continued)

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 1999 for real and public utility property taxes represents collections of calendar 1998 taxes. Property tax payments received during calendar 1999 for tangible personal property (other than public utility property is for calendar 1999 taxes.

1999 real property taxes are levied after April 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 1999 public utility property taxes became a lien December 31, 1998, are levied after April 1, 1999 and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after April 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 1999 taxes were collected are:

	1998 Second- Half Collections		1999 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$63,318,020	86.57%	\$64,938,090	87.02%
Public Utilities	7,381,760	10.09	7,049,680	9.48
Tangible Personal Property	2,444,740	3.34	2,634,790	3.50
Total Assessed Value	\$73,144,520	100.00%	\$74,622,560	100.00%
Tax rate per \$1,000 of assessed valuation	\$26.18		\$26.18	

NOTE 6 - INCOME TAX

The School District levies a voted tax of 0.75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

NOTE 8 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$73,335
Less Accumulated Depreciation	<u>(44,663)</u>
Net Fixed Assets	<u>\$28,672</u>

A summary of the changes in general fixed assets during fiscal year 1999 follows:

Asset Category	Balance at 6/30/98	Additions	Deletions	Balance at 6/30/99
Land and Improvements	\$54,563	\$0	\$0	\$54,563
Buildings and Improvements	3,037,424	290,833	0	3,328,257
Furniture, Fixtures and Equipment	979,610	203,765	65,471	1,117,904
Vehicles	<u>655,986</u>	<u>103,252</u>	<u>66,770</u>	<u>692,468</u>
Totals	<u>\$4,727,583</u>	<u>\$597,850</u>	<u>\$132,241</u>	<u>\$5,193,192</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the School District contracted with Nationwide/Wausau Educational Insurers for liability insurance, boiler and machine insurance, inland marine, and property insurance; and Auto Owners Insurance Company for fleet insurance. Coverages provided are as follows:

Building and Contents-replacement cost:(\$1000 deductible)	\$15,118,400
Inland Marine Coverage (\$100 deductible)	625,315
Boiler and Machinery (\$1,000 deductible)	11,866,900
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
Collision	A.C.V.
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 9 - RISK MANAGEMENT (continued)

For fiscal year 1999, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The School District applies for participation each year. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Arcanum-Butler Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Arcanum-Butler Local School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Arcanum-Butler Local School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$42,547, \$32,913, and \$38,314, respectively; 30.72 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$29,477 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, 1997 were \$173,675, \$456,051, and \$438,848, respectively; 80.14 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998, and 1997. \$34,498 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the School District this amount equaled \$231,566 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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, prorated for partial service credit. For fiscal year 1999, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$54,542.

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 125 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 212 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 52 days for all employees.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. Medical benefits are provided through Anthem. Dental and Vision are provided through CoreSource and VSP respectively.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 1999 were as follows:

	Amount Outstanding 6/30/98	Additions	Deduction	Amount Outstanding 6/30/99
Energy Conservation				
Notes 1992 5.95%	\$185,000	\$0	\$32,500	\$152,500
Intergovernmental Payable	42,596	45,951	42,596	45,951
Compensated Absences	397,307	3,249	0	400,556
Early Retirement Incentive	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>30,000</u>
Total General Long-Term Oblig.	<u>\$624,903</u>	<u>\$79,200</u>	<u>\$75,090</u>	<u>\$629,007</u>

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS (continued)

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

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's voted legal debt margin was \$6,716,030 with an unvoted debt margin of \$74,623 at June 30, 1999. The District's energy conservation debt margin is \$519,103.

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 1999, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2000	34,600	9,074	43,674
2001	36,900	7,015	43,915
2002	39,200	4,820	44,020
2003	<u>41,800</u>	<u>2,487</u>	<u>44,287</u>
Total	<u>\$152,500</u>	<u>\$23,396</u>	<u>\$175,896</u>

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Arcanum-Butler Local School District as of and for the fiscal year ended June 30, 1999.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$194,815	\$43,409	\$238,224
Operating Expenses			
Less Depreciation	270,218	43,544	313,762
Depreciation Expense	4,127	0	4,127
Operating Loss	(79,530)	(135)	(79,665)
Donated Commodities	24,640	0	24,640
Federal and State Subsidies	56,129	0	56,129
Other Non-Operating Revenues (Expenses)	7,859	0	7,859
Loss on Sale of Fixed Assets	(1,053)	0	(1,053)
Operating Transfer - In	0	4,163	4,163
Net Income (Loss)	8,045	4,028	12,073
Fixed Asset Additions	4,370	0	4,370
Fixed Assets Deletions	3,288	0	3,288
Net Working Capital (Deficit)	113,839	13,481	127,320
Long-Term Liabilities Payable from Revenue	16,908	0	16,908
Total Assets	169,714	13,814	183,528
Total Equity	125,603	13,481	139,084
Encumbrances Outstanding			
At June 30, 1999	5,905	1,780	7,685

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 15 - CONTRACTUAL COMMITMENTS

As of June 30, 1999, the School District had contractual purchase commitments for the completion of the emergency repair grant maintenance at the middle school as follows:

<u>Contractor</u>	<u>Contract Amount</u>
Steed Hammond & Paul	\$17,875
Brumbaugh Construction	110,100

NOTE 16 - 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 \$3,179 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 Montgomery County Educational Service Center acts as the Fiscal Agent for the group. 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 by the Fiscal Agent. 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 1999, the School District paid \$677 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 1999, the School District paid \$835 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.

NOTE 17 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 18 - RELATED ORGANIZATION

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 19 – SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purpose in future years. The School District is also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Budget Stabilization	Total
Set-aside Cash Balance as of June 30, 1998	\$0	\$0	\$32,614	\$32,614
Current Year Set-aside Requirement	92,879	92,879	46,439	232,197
Additional Funds Set-aside	0	103,670	0	103,670
Workers Compensation Received prior to December 31, 1998	0	0	317	317
Current Year Offsets	(17,841)	0	0	(17,841)
Qualifying Disbursements	<u>(59,219)</u>	<u>(92,520)</u>	<u>0</u>	<u>(151,739)</u>
Total	<u>\$15,819</u>	<u>\$104,029</u>	<u>\$79,370</u>	<u>\$199,218</u>
Cash Balance	\$15,819	\$104,029	\$79,370	\$199,218
Less: Additional Funds Set-aside	<u>0</u>	<u>(103,670)</u>	<u>0</u>	<u>(103,670)</u>
Cash Balance Carried Forward FY99	<u>\$15,819</u>	<u>\$359</u>	<u>\$79,370</u>	95,548
Amount Restricted for Bus Purchase				<u>93</u>
Total Restricted Assets				<u>\$95,641</u>

The School District had additional qualifying disbursements during the year, these extra amounts may not be used to reduce the set-aside requirements of future years, and are therefore not presented. The School District also set-aside additional money in excess of statutory requirements for capital acquisition. This amount is presented on the balance sheet as a designation of fund balance rather than as a reserve, and is therefore not included in restricted assets.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 20 – SCHOOL FUNDING COURT DECISION

On March 24, 1997, the Ohio Supreme court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$3,472,709 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional. As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operations.

NOTE 21 - YEAR 2000 COMPLIANCE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations.

The Arcanum-Butler Local School District has completed an inventory of computer systems and other equipment necessary to conducting the School District operations. The School District uses Ohio Education Computer Network (OECN) State Software for their budgetary, payroll, fixed asset inventory and education management information system (EMIS) accounting services. These services are provided by the Metropolitan Dayton Educational Cooperative Association (MDECA - see Note 16) OECN has undergone the task of making the aforementioned software packages year 2000 compliant. However, in the event that the system or a component of the system would fail, the District could switch to a manual system and continue operations.

Darke County collects property taxes for distribution to Arcanum-Butler Local School District. Darke County is responsible for remediating the tax collection system and is solely responsible for any costs associated with the tax collection system project.

The State of Ohio distributes a substantial sum of money to the School District in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the School District through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with the Foundation processing and EMIS systems.

The Village of Arcanum provides the High-School and Elementary building with utilities such as water, sewer, and electric. The Village of Arcanum is responsible for remediating these systems and is solely responsible for any costs associated with the service of utilities. Dayton Power and Light Company provides the School District with natural gas and the Middle-School building with electric services. Dayton Power and Light Company is solely responsible for any costs associated with the service of these utilities.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 21 - YEAR 2000 COMPLIANCE (continued)

The School District, as of the date of the financial statements, was assessing the changes needed in the boiler at the High-School and Elementary building. Since the date of the financial statements remediation, testing, and validating have been completed.

To the best of management's knowledge and belief, as of January 21, 2000, the District experienced no significant interruption of mission-critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the District does business may also experience Year 2000 readiness issues that are as yet, unknown.

NOTE 22 - CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 1999.

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 1998**

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,593,763	\$94,998	\$385,746
Cash and Cash Equivalents:			
With Fiscal Agents	0	11,575	0
Investments	0	0	0
Receivables:			
Property and Other Taxes	1,375,391	0	0
Income Taxes	232,085	0	0
Accounts	10,843	2,329	0
Intergovernmental	11,085	0	0
Accrued Interest	2,050	0	0
Prepaid Items	28,365	0	0
Inventory Held for Resale	0	0	0
Inventory of Supplies and Materials	19,562	0	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	32,614	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0
Total Assets and Other Debits	\$3,305,758	\$108,902	\$385,746
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	\$37,664	\$2,118	\$2,565
Contracts Payable	71,578	0	13,280
Accrued Wages and Benefits Payable	562,760	14,457	0
Compensated Absences Payable	16,505	0	0
Retainage Payable	0	0	720
Intergovernmental Payable	108,410	0	0
Deferred Revenue	1,253,231	0	0
Due to Students	0	0	0
Energy Conservation Loan Payable	0	0	0
Total Liabilities	2,050,148	16,575	16,565
Fund Equity and Other Credits:			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	145,946	4,783	243,940
Reserved for Inventory	19,562	0	0
Reserved for Property Taxes	126,037	0	0
Reserved for Budget Stabilization	32,614	0	0
Reserved for Non-Expendable Trust Fund	0	0	0
Unreserved, Undesignated	931,451	87,544	125,241
Total Fund Equity and Other Credits	1,255,610	92,327	369,181
Total Liabilities, Fund Equity and Other Credits	\$3,305,758	\$108,902	\$385,746

See Accompanying Notes to the General Purpose Financial Statements

PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
		GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
ENTERPRISE	TRUST AND AGENCY			
\$124,632	\$31,392	\$0	\$0	\$2,230,531
0	0	0	0	11,575
0	4,180	0	0	4,180
0	0	0	0	1,375,391
0	0	0	0	232,085
2,058	0	0	0	15,230
7,210	0	0	0	18,295
0	160	0	0	2,210
930	0	0	0	29,295
6,906	0	0	0	6,906
1,815	0	0	0	21,377
0	0	0	0	32,614
29,482	0	4,727,583	0	4,757,065
0	0	0	624,903	624,903
<u>\$173,033</u>	<u>\$35,732</u>	<u>\$4,727,583</u>	<u>\$624,903</u>	<u>\$9,361,657</u>
\$3,741	\$0	\$0	\$0	\$46,088
0	0	0	0	84,858
16,671	0	0	0	593,888
5,703	0	0	397,307	419,515
0	0	0	0	720
14,686	0	0	42,596	165,692
5,221	0	0	0	1,258,452
0	9,930	0	0	9,930
0	0	0	185,000	185,000
<u>46,022</u>	<u>9,930</u>	<u>0</u>	<u>624,903</u>	<u>2,764,143</u>
0	0	4,727,583	0	4,727,583
127,011	0	0	0	127,011
0	0	0	0	394,669
0	0	0	0	19,562
0	0	0	0	126,037
				32,614
0	4,180	0	0	4,180
0	21,622	0	0	1,165,858
<u>127,011</u>	<u>25,802</u>	<u>4,727,583</u>	<u>0</u>	<u>6,597,514</u>
<u>\$173,033</u>	<u>\$35,732</u>	<u>\$4,727,583</u>	<u>\$624,903</u>	<u>\$9,361,657</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	EXPENDABLE TRUST	
Revenues:					
Property and Other Taxes	\$1,335,480	\$0	\$0	\$0	\$1,335,480
Income Taxes	660,148	0	0	0	660,148
Tuition and Fees	18,985	0	0	0	18,985
Interest	108,096	0	0	448	108,544
Intergovernmental	3,476,874	196,236	361,011	0	4,034,121
Extracurricular Activities	0	140,645	0	0	140,645
Miscellaneous	41,868	2,816	0	0	44,684
Total Revenues	<u>5,641,451</u>	<u>339,697</u>	<u>361,011</u>	<u>448</u>	<u>6,342,607</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,846,796	67,230	120,143	0	3,034,169
Special	322,877	90,367	0	0	413,244
Vocational	48,603	0	0	0	48,603
Support Services:					
Pupils	177,392	7,700	0	0	185,092
Instructional Staff	276,083	47,880	500	0	324,463
Board of Education	14,416	0	0	0	14,416
Administration	452,736	0	0	0	452,736
Fiscal	129,892	0	0	0	129,892
Operation and Maintenance of Plant	418,073	0	0	0	418,073
Pupil Transportation	242,791	0	0	0	242,791
Central	1,563	1,802	0	0	3,365
Operation of Non-Instructional Services	723	448	0	0	1,171
Extracurricular Activities	139,763	99,400	0	0	239,163
Capital Outlay	71,578	0	37,107	0	108,685
Debt Service:					
Principal Retirement	30,500	0	0	0	30,500
Interest and Fiscal Charges	12,822	0	0	0	12,822
Total Expenditures	<u>5,186,608</u>	<u>314,827</u>	<u>157,750</u>	<u>0</u>	<u>5,659,185</u>
Excess of Revenues Over (Under) Expenditures	454,843	24,870	203,261	448	683,422
Other Financing Sources (Uses):					
Operating Transfers Out	<u>1,400</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,400</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	456,243	24,870	203,261	448	684,822
Fund Balances at Beginning of Year	791,573	67,457	165,920	21,009	1,045,959
Increase in Reserve for Inventory	<u>10,594</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,594</u>
Fund Balances at End of Year	<u><u>\$1,255,610</u></u>	<u><u>\$92,327</u></u>	<u><u>\$369,181</u></u>	<u><u>\$21,457</u></u>	<u><u>\$1,727,981</u></u>

See Accompanying Notes to the General Purpose Financial Statements

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Property and Other Taxes	\$1,360,490	\$1,360,490	\$0	\$0	\$0	\$0
Income Tax	655,598	655,598	0	0	0	0
Tuition and Fees	20,333	20,333	0	0	0	0
Interest	106,046	106,046	0	0	0	0
Intergovernmental	3,467,339	3,467,339	0	183,592	183,592	0
Extracurricular Activities	0	0	0	140,504	140,504	0
Miscellaneous	9,354	9,354	0	2,816	2,816	0
Total Revenues	5,619,160	5,619,160	0	326,912	326,912	0
Expenditures:						
Current:						
Instruction:						
Regular	2,813,914	2,813,914	0	71,064	71,064	0
Special	358,387	358,387	0	91,214	91,214	0
Vocational	48,549	48,549	0	0	0	0
Other	72,951	72,951	0	0	0	0
Support Services:						
Pupils	178,332	178,332	0	8,149	8,149	0
Instructional Staff	278,323	278,323	0	47,884	47,884	0
Board of Education	20,591	20,591	0	0	0	0
Administration	455,433	455,433	0	0	0	0
Fiscal	138,175	138,175	0	0	0	0
Operation and Maintenance of Plant	445,239	445,239	0	0	0	0
Pupil Transportation	295,065	295,065	0	0	0	0
Central	1,564	1,564	0	1,831	1,831	0
Operation of Non-Instructional Services	723	723	0	450	450	0
Extracurricular Activities	139,743	139,743	0	100,946	100,946	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	30,500	30,500	0	0	0	0
Interest and Fiscal Charges	12,822	12,822	0	0	0	0
Total Expenditures	5,290,311	5,290,311	0	321,538	321,538	0
Excess of Revenues Over (Under) Expenditures	328,849	328,849	0	5,374	5,374	0
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	32,595	32,595	0	2,296	2,296	0
Advances - In	4,408	4,408	0	0	0	0
Advances - Out	1,400	1,400	0	4,408	4,408	0
Total Other Financing Sources (Uses)	35,603	35,603	0	(2,112)	(2,112)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	364,452	364,452	0	3,262	3,262	0
Fund Balances at Beginning of Year	945,415	945,415	0	71,504	71,504	0
Prior Year Encumbrances Appropriated	136,992	136,992	0	13,332	13,332	0
Fund Balances at End of Year	\$1,446,859	\$1,446,859	\$0	\$88,098	\$88,098	\$0

See Accompanying Notes to the General Purpose Financial Statements

CAPITAL PROJECTS FUNDS			EXPENDABLE TRUST FUNDS		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	448	448	0
365,418	365,418	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>365,418</u>	<u>365,418</u>	<u>0</u>	<u>448</u>	<u>448</u>	<u>0</u>
130,735	130,735	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
500	500	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
256,663	256,663	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<u>387,898</u>	<u>387,898</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(22,480)	(22,480)	0	448	448	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(22,480)	(22,480)	0	448	448	0
152,373	152,373	0	448	448	0
9,348	9,348	0	21,009	21,009	0
<u>\$139,241</u>	<u>\$139,241</u>	<u>\$0</u>	<u>\$21,905</u>	<u>\$21,905</u>	<u>\$0</u>

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	TOTAL (MEMORANDUM ONLY)
	<u>ENTERPRISE</u>	<u>NONEXPENDABLE TRUST</u>	
Operating Revenues:			
Sales	\$230,761	\$0	\$230,761
Interest	0	241	241
Total Operating Revenues	<u>230,761</u>	<u>241</u>	<u>231,002</u>
Operating Expenses:			
Salaries and Wages	91,900	0	91,900
Fringe Benefits	26,608	0	26,608
Purchased Services	4,127	0	4,127
Supplies and Materials	18,461	0	18,461
Cost of Sales	160,654	0	160,654
Other Operating Expenses	0	209	209
Depreciation	3,616	0	3,616
Total Operating Expenses	<u>305,366</u>	<u>209</u>	<u>305,575</u>
Operating Loss	(74,605)	32	(74,573)
Non-Operating Revenues and Expenses:			
Federal Donated Commodities	19,296	0	19,296
Federal and State Subsidies	58,883	0	58,883
Loss on Disposal of Fixed Assets	(178)	0	(178)
Total Non-Operating Revenues and Expenses	<u>78,001</u>	<u>0</u>	<u>78,001</u>
Income (Loss) Before Operating Transfers	3,396	32	3,428
Operating Transfers-In	<u>1,400</u>	<u>0</u>	<u>1,400</u>
Net Income (Loss)	4,796	32	4,828
Retained Earnings/Fund Balance at Beginning of Year	<u>122,215</u>	<u>4,313</u>	<u>126,528</u>
Retained Earnings/Fund Balance at End of Year	<u><u>\$127,011</u></u>	<u><u>\$4,345</u></u>	<u><u>\$131,356</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	ENTERPRISE FUNDS			NONEXPENDABLE TRUST FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:						
Sales	\$230,909	\$230,909	\$0	\$0	\$0	\$0
Federal and State Subsidies	58,178	58,178	0	0	0	0
Interest	0	0	0	214	214	0
Total Revenues	289,087	289,087	0	214	214	0
Expenses:						
Salaries	91,478	91,478	0	0	0	0
Fringe Benefits	26,216	26,216	0	0	0	0
Purchased Services	4,360	4,360	0	0	0	0
Supplies and Materials	156,034	156,034	0	0	0	0
Capital Outlay	10,260	10,260	0	0	0	0
Other Operating Expenses	0	0	0	209	209	0
Total Expenses	288,348	288,348	0	209	209	0
Excess of Revenues Over Expenses Before Operating Transfers	739	739	0	5	5	0
Operating Transfer-In	1,400	1,400	0	0	0	0
Excess of Revenues and Operating Transfers Over Expenses	2,139	2,139	0	5	5	0
Fund Equity at Beginning of Year	116,015	116,015	0	4,180	4,180	0
Prior Year Encumbrances Appropriated	1,290	1,290	0	0	0	0
Fund Equity at End of Year	\$119,444	\$119,444	\$0	\$4,185	\$4,185	\$0

See Accompanying Notes to the General Purpose Financial Statements

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	TOTAL
	ENTERPRISE	NONEXPENDABLE (MEMORANDUM TRUST)	ONLY)
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$230,909	\$0	\$230,909
Nonexpendable Trust Fund Interest	0	214	214
Cash Payments to Employees for Services and Benefits	(117,694)	0	(117,694)
Cash Payments to Suppliers for Goods and Services	(160,868)	0	(160,868)
Cash Payments to Students for Scholarship	0	(209)	(209)
Net Cash Provided Used In Operating Activities	<u>(47,653)</u>	<u>5</u>	<u>(47,648)</u>
Cash Flows from Noncapital Financing Activities:			
Federal and State Subsidies Received	58,178	0	58,178
Operating Transfer-In	1,400	0	1,400
Net Cash Provided By Noncapital Financing Activities	<u>59,578</u>	<u>0</u>	<u>59,578</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(4,598)	0	(4,598)
Net Increase in Cash and Cash Equivalents	7,327	5	7,332
Cash and Cash Equivalents Beginning of Year	117,305	4,180	121,485
Cash and Cash Equivalents End of Year	<u><u>\$124,632</u></u>	<u><u>\$4,185</u></u>	<u><u>\$128,817</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:			
Operating Loss	(\$74,605)	\$32	(\$74,573)
Adjustments to Reconcile Operating Loss to:			
Net Cash Used In Operating Activities:			
Depreciation	3,616	0	3,616
Donated Commodities Received	19,296	0	19,296
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	147	0	147
Decrease in Accrued Interest Receivable	0	(27)	(27)
Decrease in Prepaid Items	276	0	276
Decrease in Supplies Inventory	177	0	177
Decrease in Inventory Held for Resale	257	0	257
Increase in Accounts Payable	2,649	0	2,649
Decrease in Accrued Salaries Payable	(25)	0	(25)
Increase in Intergovernmental Payable	111	0	111
Increase in Compensated Absences Payable	448	0	448
Net Cash Used In Operating Activities	<u><u>(\$47,653)</u></u>	<u><u>\$5</u></u>	<u><u>(\$47,648)</u></u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Fund to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		\$31,392	
Cash and Cash Equivalents-Expendable Trust and Agency Funds		<u>(31,387)</u>	
Cash and Cash Equivalents-Nonexpendable Trust Fund		<u><u>\$5</u></u>	

See Accompanying Notes to the General Purpose Financial Statements

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998

NOTE 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/or 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. The School District is the 439th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by 39 non-certificated employees, 76 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,254 students and other community members. The School District currently operates 3 instructional buildings, 1 administrative building, and 1 garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District 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 is associated with several organizations which are defined as jointly governed organizations, an insurance purchasing pool, and a related organization. These organizations include the Metropolitan Dayton Educational Cooperative Association, the Southwestern Ohio Educational Purchasing Cooperative, the Southwestern Ohio Instructional Technology Association, the Dayton Area Superintendent's Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Arcanum Public Library. These organizations are presented in Notes 17, 18, and 19 to the general purpose financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Arcanum-Butler Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Fund Type:

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

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District does not have contributed capital. Proprietary and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxpayer-assessed income taxes, interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1998, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 1999 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type and the nonexpendable trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. 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 temporary cash flow resource and are intended to be repaid.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Darke County Budget Commission for rate determination.

Estimated Resources:

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

The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1998. At year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

Appropriations:

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. Before closing at year end, the School District passes appropriations to match expenditures plus encumbrances.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

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

During fiscal year 1998, the District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio) and certificates of deposit. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1998.

Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to \$108,096, which includes \$20,587 assigned from other School District funds. The expendable and nonexpendable trust funds also received interest revenue of \$448 and \$241 respectively.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1998, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

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

The School District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. The School District currently participates in several State and Federal programs, categorized as follows:

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Entitlements

General Fund

State Foundation Program
State Property Tax Relief
School Bus Purchase Program

Special Revenue Funds

Textbook Subsidy

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems
Title I
Title VI
Title VI-B
Drug-Free Schools
Teacher Development
Early Childhood
Public School Preschool
Career Ed
Family School Partnership Initiative
Eisenhower Math and Science
Vocational Education
Handicapped Preschool

Capital Projects Funds

School Net
School Net Plus
Technology Equity
Emergency Repair Grant

Reimbursable Grants

General Fund

Driver Education

Proprietary Funds

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 63.6 percent of the School District's operating revenue during the 1998 fiscal year.

I. Interfund Assets/Liabilities

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available financial resources. Long-term loans are reported as a liability of the general long-term obligations account group until due.

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

L. Interfund Transactions

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Department of Education. During fiscal year 1998, the School District received a \$32,614 refund from the Bureau of Worker's Compensation which State statute required to be included in this reserve. This refund is presented as "miscellaneous" revenues in the accompanying financial statements. A fund balance reserve has also been established.

N. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, budget stabilization, property taxes, and contributions to the nonexpendable trust fund that must be kept intact. The reserve for budget stabilization represents money required to be set aside by State statute and may only be used with approval of the Ohio Department of Education. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

P. Total Columns on General Purpose Financial Statements

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 1998, the School District implemented *GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."* This statement establishes accounting and reporting guidelines for government investments and investment pools. The implementation of this statement required no change in the School District's financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Types and Nonexpendable Trust Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

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

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$456,243	\$24,870	\$203,260	\$448
Revenue Accruals	10,304	(10,489)	4,408	0
Prepaid Items	(5,943)	0	0	0
Expenditure Accruals	78,959	190	16,356	0
Advances	4,408	(4,408)	0	0
Encumbrances	<u>(179,519)</u>	<u>(6,901)</u>	<u>(246,504)</u>	<u>0</u>
Budget Basis	<u>\$364,452</u>	<u>\$3,262</u>	<u>\$22,480</u>	<u>\$448</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Income/Excess of Revenues Over (Under) Expenses, Transfers and Advances
Proprietary Fund Type and Nonexpendable Trust Fund

	Enterprise	Nonexpendable Trust
GAAP Basis	\$4,796	\$32
Revenue Accruals	(19,854)	(28)
Expense Accruals	25,952	0
Prepaid Items	(276)	0
Materials and Supplies Inventory	(177)	0
Inventory Held for Resale	(2,132)	0
Capital Outlay	(4,599)	0
Depreciation Expense	3,616	0
Encumbrances	<u>(5,187)</u>	<u>0</u>
Budget Basis	<u>\$2,139</u>	<u>\$4</u>

NOTE 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 two 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, 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.

State statute permits inactive monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS_(continued)

2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, 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.

At fiscal year end, the School District had \$650 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

The "Cash and Cash Equivalents with Fiscal Agent" of \$11,575 shown in the special revenue funds is maintained with the Darke County Educational Service Center. GASB 3 disclosures regarding this amount can be obtained from their annual report.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$28,192 and the bank balance was \$95,817, all of which was covered by federal depository insurance.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS_(continued)

Investments: The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The only School District investment at year end was STAR Ohio. It is an unclassified investment with a carrying value and a market value of \$2,238,483.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$2,263,145	\$4,180
Cash on Hand	(650)	
Investments:		
Certificate of Deposit	4,180	(4,180)
STAR Ohio	<u>(2,238,483)</u>	<u>2,238,483</u>
GASB Statement 3	<u>\$ 28,192</u>	<u>\$2,238,483</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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.

Tangible personal property taxes paid 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 6 - PROPERTY TAXES (continued)

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, 1998, are available to finance fiscal year 1998 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 1998. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 1998, was \$126,037 in the General Fund.

The assessed values upon which fiscal year 1998 taxes were collected are:

	1997 Second- Half Collections		1998 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$62,038,040	85.65%	\$63,318,020	86.57%
Public Utilities	8,024,610	11.08	7,381,760	10.09
Tangible Personal Property	2,366,610	3.27	2,444,740	3.34
Total Assessed Value	\$72,429,260	100.00%	\$73,144,520	100.00%
Tax rate per \$1,000 of assessed valuation	\$26.18		\$26.18	

NOTE 7 - INCOME TAX

The School District levies a voted tax of 0.75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 1998, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 9 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1998, follows:

Furniture and Equipment	\$72,253
Less Accumulated Depreciation	<u>(42,771)</u>
Net Fixed Assets	<u>\$29,482</u>

A summary of the changes in general fixed assets during fiscal year 1998 follows:

Asset Category	Balance at 6/30/97	Additions	Deletions	Balance at 6/30/98
Land and Improvements	\$54,563	\$0	\$0	\$54,563
Buildings and Improvements	2,994,599	42,825	0	3,037,424
Furniture, Fixtures and Equipment	820,979	190,745	32,114	979,610
Vehicles	<u>655,986</u>	<u>0</u>	<u>0</u>	<u>655,986</u>
Totals	<u>\$4,526,127</u>	<u>\$233,570</u>	<u>\$32,114</u>	<u>\$4,727,583</u>

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1998, the School District contracted with Nationwide/Wausau Educational Insurers for liability insurance, boiler and machine insurance, inland marine, and property insurance; and Auto Owners Insurance Company for fleet insurance. Coverages provided are as follows:

Building and Contents-replacement cost:(\$250 deductible)	\$14,631,800
Inland Marine Coverage (\$100 deductible)	838,809
Boiler and Machinery (\$1,000 deductible)	10,357,900
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
Collision	A.C.V.
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000

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

For fiscal year 1998, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 10 - RISK MANAGEMENT (Continued)

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 School District applies for participation each year. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Arcanum-Butler Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Arcanum-Butler Local School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998, 9.79 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$103,810, \$98,902, and \$93,346, respectively; 34.47 percent has been contributed for fiscal year 1998 and 100 percent for the fiscal years 1997 and 1996. \$32,913 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Arcanum-Butler Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the Arcanum-Butler Local School District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion to fund obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to

STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were \$456,051, \$438,848, and \$413,308, respectively; 85.59 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. \$56,717 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the School District this amount equaled \$106,334 during the 1998 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$1,860 million at June 30, 1997. For the fiscal year ended June 30, 1997, net health care costs paid by STRS were \$192,077,000 and STRS had 88,718 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS_(continued)

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1997 were \$97,429,197 and the target level was \$121.8 million. At June 30, 1997 SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$23,971 during the 1998 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 212 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 52 days for all employees.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. Medical benefits are provided through Anthem.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 1998 were as follows:

	Principal Outstanding 6/30/97	Additions	Deduction	Principal Outstanding 6/30/98
Energy Conservation Loan 1992 5.95%	\$215,500	\$0	\$30,500	\$185,000
Intergovernmental Payable	46,527	42,596	46,527	42,596
Compensated Absences	<u>335,220</u>	<u>397,307</u>	<u>335,220</u>	<u>397,307</u>
Total General Long-Term Obligations	<u>\$597,247</u>	<u>\$439,903</u>	<u>\$412,247</u>	<u>\$624,903</u>

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

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

The School District's voted legal debt margin was \$6,583,007 with an unvoted debt margin of \$73,145 at June 30, 1998.

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 1998, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
1999	\$32,500	\$11,008	\$43,508
2000	34,600	9,074	43,674
2001	36,900	7,015	43,915
2002	39,200	4,820	44,020
2003	<u>41,800</u>	<u>2,487</u>	<u>44,287</u>
Total	<u>\$185,000</u>	<u>\$34,404</u>	<u>\$219,404</u>

NOTE 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Arcanum-Butler Local School District as of and for the fiscal year ended June 30, 1998.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$193,503	\$37,258	\$230,761
Operating Expenses			
Less Depreciation	263,964	37,786	301,750
Depreciation Expense	3,616	0	3,616
Operating Loss	(74,077)	(528)	(74,605)
Donated Commodities	19,296	0	19,296
Federal and State Subsidies	58,883	0	58,883
Operating Transfers	0	1,400	1,400
Net Income (Loss)	3,924	872	4,796
Fixed Assets Additions	4,599	0	4,599
Net Working Capital	99,486	9,453	108,949
Total Assets	163,580	9,453	173,033
Total Equity	117,558	9,453	127,011
Encumbrances Outstanding			
At June 30, 1998	\$5,137	\$50	\$5,187

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 16 - CONTRACTUAL COMMITMENTS

As of June 30, 1998, the School District had contractual purchase commitments for the completion of the emergency repair grant maintenance at the middle school as follows:

Contractor	Contract Amount	Amount Expended	Balance at 6/30/98
Kremer Roofing, Inc.	\$129,573	\$0	\$129,573
Progressive Plumbing	85,555	0	85,555
Midwest Maintenance, Inc.	121,744	0	121,744
Steed Hammond & Paul	28,634	22,907	5,527

NOTE 17 - 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 \$3,270 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 Cooperative - The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the Fiscal Agent for the group. 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 by the Fiscal Agent. 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 1998, the School District paid \$677 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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 1998, the School District paid \$855 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.

The Dayton Area Superintendent's Association – The Dayton Area Superintendent's Association (DASA) is an organization formed by area school Superintendents. The purpose of the organization is to serve as a forum for practicing superintendents to present problems, seek solutions, reach consensus and take appropriate action to resolve issues. The organization also shares information among its members and provides, on a contractual basis, in service education for the school management team.

Membership in the organization is open to the greater Dayton area school system superintendents, assistant superintendents, directors, and professional staff members of institutions of higher education, and/or Region IX of the Buckeye Association of School Administrators. Region IX presently includes Champaign, Clark, Darke, Greene, Miami, Montgomery, Preble, Shelby and Warren Counties. The Executive Committee is comprised of eight representatives of DASA member schools or institutions. The members of the Executive Committee are elected annually in each county. The County Superintendent of each county is responsible for the nomination and election of their representative.

All member schools are obligated to pay all dues and fees established by the Executive Committee. During fiscal year 1998, the School District paid \$10 to DASA from the General Fund. To obtain financial information, write to The Dayton Area Superintendent's Association, Buddy Coffey, who serves as Executive Secretary, at 451 Third Street, Dayton, Ohio 45422-1040.

NOTE 18 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 19 - RELATED ORGANIZATION

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

NOTE 20 - YEAR 2000 COMPLIANCE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal year 1999.

The Arcanum-Butler Local School District has completed an inventory of computer systems and other equipment necessary to conducting the School District operations. The School District uses Ohio Education Computer Network (OECN) State Software for their budgetary, payroll, fixed asset inventory and education management information system (EMIS) accounting services. These services are provided by the Metropolitan Dayton Educational Cooperative Association (MDECA - see Note 17) OECN has undergone the task of making the aforementioned software packages year 2000 compliant according to the following schedule:

Software Program	Version	Available
Payroll	USPS V4.0	September, 1997
Budgetary	USAS V6.1	June, 1998
Fixed Asset Inventory	SAAS V2.0	December, 1998
EMIS	EMIS V1.7	September, 1998

No cost will be imposed to the School District as a result of the program modifications.

Darke County collects property taxes for distribution to Arcanum-Butler Local School District. Darke County is responsible for remediating the tax collection system and is solely responsible for any costs associated with the tax collection system project.

The State of Ohio distributes a substantial sum of money to the School District in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the School District through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with the Foundation processing and EMIS systems.

The Village of Arcanum provides the High-School and Elementary building with utilities such as water, sewer, and electric. The Village of Arcanum is responsible for remediating these systems and is solely responsible for any costs associated with the service of utilities. Dayton Power and Light Company provides the School District with natural gas and the Middle-School building with electric services. Dayton Power and Light Company is solely responsible for any costs associated with the service of these utilities.

The School District is currently assessing the changes needed in the boiler at the High-School and Elementary building. The system may have to be remediated, and tested and validated.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1998
(Continued)

NOTE 20 - YEAR 2000 COMPLIANCE (continued)

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the School District is or will be Year 2000 ready, that the School District's remediation efforts will be successful in whole or in part, or that parties with whom the School District does business will be year 2000 ready.

NOTE 21 - CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 1998.

NOTE 22 – SCHOOL FUNDING COURT DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1998, the School District received \$2,826,845 of school foundation support for its general fund.

Also, the Court declared the spending reserve borrowing program unconstitutional. The spending reserve program allowed the School District to borrow against amounts anticipated to be collected from tangible personal property taxes after the School District's June 30 fiscal year end. During the fiscal year ended June 30, 1998, the School District did not borrow under this program. State statute has recently been amended to gradually decrease the annual amount that may be borrowed under this program.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws to determine whether they are constitutional under the "thorough and efficient" clause of the Ohio Constitution. According to the Ohio Attorney General's office, a decision is expected from the Perry County Court sometime in early calendar year 1999; either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operations.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of Arcanum-Butler Local School District, Darke County, (the "School District") as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated January 21, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated January 21, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 21, 2000.

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

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

JIM PETRO
Auditor of State

January 21, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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
FEBRUARY 29, 2000**