



INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Butler Elementary School District No. 53
2801 York Road
Oak Brook, Illinois 60523

We have audited the accompanying financial statements of the individual funds and account groups of Butler Elementary School District No. 53 as of and for the year ended June 30, 2007, which collectively comprise Butler Elementary School District No. 53's basic financial statements as listed in the table of contents of this Annual Financial Report form. These financial statements are the responsibility of Butler Elementary School District No. 53's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in a following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the 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 opinions.

As described more fully in Note 1, Butler Elementary School District No. 53 prepared these basic financial statements using accounting practices prescribed or permitted by the Illinois State Board of Education, which practices differ from accounting principles generally accepted in the United States of America. Certain financial statements, required supplementary information and related disclosures, that are required presentations under accounting principles generally accepted in the United States of America, are not presented. Also as described in Note 1, Butler Elementary School District No. 53 prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Butler Elementary School District No. 53 as of June 30, 2007, or changes in financial position for the year then ended.

Butler Elementary School District No. 53 does not maintain detailed records of the historical cost of its fixed assets. Therefore, we were unable to obtain sufficient evidence to form an opinion on the general fixed assets account group.

In our opinion, except for the effect of such adjustments, if any, as might have been disclosed with respect to the general fixed asset account group had detailed records been available, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the individual funds and account groups of Butler Elementary School District No. 53 as of June 30, 2007 and the revenues received and expenditures disbursed of its individual funds for the year then ended on the basis described in Note 1.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler Elementary School District No. 53's basic financial statements. The accompanying supplementary schedules and statistical section, listed in the table of contents of this Annual Financial Report form, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements referred to above and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oak Brook, Illinois
September 17, 2007

Vuchow, Krause & Company, LLP

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Butler Elementary School District No. 53 (the "District") operates as a public school system governed by a seven-member board. The District is organized under the School Code of the State of Illinois, as amended. The accounting policies of the District conform to the regulatory provisions prescribed by the Illinois State Board of Education, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America, as applicable to local governmental units of this type. The following is a summary of the more significant accounting policies of the District:

Reporting Entity

Accounting principles generally accepted in the United States of America require that the financial statements of the reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the District. Using the same criteria, the District is not included as a component unit of any other governmental entity.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. This report does not contain any component units.

Basis of Presentation

The accounts of the District in the governmental fund financial statements are organized and operated on the basis of funds and account groups and are used to account for the District's general governmental activities. Fund accounting segregates funds according to their intended purpose, and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The minimum number of funds is maintained consistent with legal and managerial requirements. Account Groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Measurement Focus and Basis of Accounting

The District has the following fund types and account groups:

Governmental Funds are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the cash basis of accounting. Accordingly, cash receipts are recognized and recorded in the accounts when cash is received. In the same manner, expenditures are recognized and recorded upon the disbursement of cash. Guidelines prescribed by the Illinois State Board of Education consider payments by the State of Illinois to the Teachers' Retirement System ("TRS") on behalf of the District's employees who are members of TRS ("on-behalf payments") to be cash transactions of the District. Assets of a fund are only recorded when a right to receive cash exists that arises from a previous cash transaction. Liabilities of a fund, similarly, result from previous cash transactions.

Cash basis financial statements omit recognition of receivables and payables and other accrued and deferred items that do not arise from previous cash transactions.

Proceeds from sales of bonds are included as "other financing sources" in the appropriate fund on the date received. Related bond principal payable in the future is recorded at the same time in the General Long-Term Debt Account Group.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant.

Major Governmental Funds

General Fund - (Educational Fund) the general operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund. This fund is primarily used for most of the instructional and administrative aspects of the District's operations. Revenues consist largely of local property taxes and state government aid.

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, other than those accounted for in the Debt Service Fund, Capital Projects Funds or Fiduciary Funds.

Each of the District's Special Revenue Funds has been established as a separate fund in accordance with the fund structure required by the State of Illinois for local educational agencies. These funds account for local property taxes restricted to specific purposes. A brief description of the District's Special Revenue Funds follows:

Operations and Maintenance Fund - accounts for expenditures made for repair and maintenance of the District's buildings and land. Revenue consists primarily of local property taxes.

Transportation Fund - accounts for all revenue and expenditures made for student transportation. Revenue is derived primarily from local property taxes and state reimbursement grants.

Municipal Retirement/ Social Security Fund - accounts for the District's portion of pension contributions to the Illinois Municipal Retirement Fund, payments to Medicare, and payments to the Social Security System for non-certified employees. Revenue to finance the contributions is derived primarily from local property taxes and personal property replacement taxes.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Working Cash Fund - accounts for financial resources held by the District to be used as temporary interfund loans for working capital requirements to the General Fund and the Special Revenue Fund's Operation and Maintenance and Transportation Funds. Money loaned by the Working Cash Fund to other funds must be repaid within one year. As allowed by the School Code of Illinois, this fund may be permanently abolished and become a part of the General Fund or it may be partially abated to the General Fund, Special Revenue Funds, Debt Service Funds or the Fire Prevention and Life Safety Fund.

Debt Service Fund - (*Bond and Interest Fund*) accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. The primary revenue source is local property taxes levied specifically for debt service.

Capital Project Fund - accounts for the financial resources to be used for the acquisition or construction of, and/or additions to, major capital facilities.

Fire Prevention and Life Safety Fund - accounts for State-approved life safety projects financed through serial bond issues or local property taxes levied specifically for such purposes.

Other Fund Types

Fiduciary Funds - account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds.

Trust and Agency Funds - include Student Activity Funds, Convenience Accounts and Other Agency Funds. These funds are custodial in nature and do not present results of operations or have a measurement focus. Although the Board of Education has the ultimate responsibility for Activity Funds, they are not local education agency funds. Student Activity Funds account for assets held by the District which are owned, operated and managed generally by the student body, under the guidance and direction of adults or a staff member, for educational, recreational or cultural purposes. Convenience Accounts account for assets that are normally maintained by a local education agency as a convenience for its faculty, staff, etc.

The *Butler Trust Fund* accounts for financial resources to be used for the development of cultural programs for the entire community, through the use of interest earned in this fund.

The *Harold Gershowitz Trust Fund* accounts for financial resources to be used to purchase artwork for the District, which will benefit both the District and the entire community.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury, certain highly-rated commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Investments are stated at cost.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Receivables are expected to be collected within one year.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Property Tax Revenues

The District must file its tax levy resolution by the last Tuesday in December of each year. The District's 2006 levy resolution was approved during the December 11, 2006 board meeting. The District's property tax is levied each year on all taxable real property located in the District and it becomes a lien on the property on January 1 of that year. The owner of real property on January 1 in any year is liable for taxes of that year.

The tax rate ceilings are applied at the fund level. These ceilings are established by state law subject to change only by the approval of the voters of the District.

The PTELA limitation is applied in the aggregate to the total levy (excluding certain levies for the repayment of debt). PTELA limits the increase in total taxes billed to the lesser of 5% or the percentage increase in the Consumer Price Index (CPI) for the preceding year. The amount can be exceeded to the extent there is "new growth" in the District's tax base. The new growth consists of new construction, annexations and tax increment finance district property becoming eligible for taxation. The CPI rates applicable to the 2006 and 2005 tax levies were 3.4% and 3.3%, respectively.

Property taxes are collected by the County Collector/Treasurer, who remits to the District its share of collections. Taxes levied in one year become due and payable in two equal installments: the first due on June 1 and the second due on September 1. Property taxes are normally collected by the District within 60 days of the respective installment dates.

Personal Property Replacement Taxes

Personal property replacement taxes are first allocated to the Municipal Retirement / Social Security Fund, and the balance is allocated to the remaining funds at the discretion of the District.

Fixed Assets

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized on general fixed assets.

Depreciation of general fixed assets is provided over the estimated useful lives using the straight-line method and is reflected within the general fixed assets account group for informational purposes only. Depreciation of general fixed assets is not charged to the operations of the District. The estimated useful lives of the buildings and improvements, and equipment of the District are 15 to 50 years, and 5 to 10 years, respectively.

Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an "other financing source" net of the applicable premium or discount.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

General Fixed Assets and General Long-Term Debt Account Groups

Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term debt. The accounting and financial reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus.

Fixed Assets - General fixed assets have been acquired for general governmental purposes. At the time of purchase, assets are recorded as expenditures paid in the Governmental Funds and capitalized at cost in the General Fixed Assets Account Group. Donated general fixed assets are listed at estimated fair market value as of the date of acquisition. Depreciation accounting is not applicable, except to determine the per capita tuition charge. Interest costs incurred during construction are not capitalized as part of fixed assets.

Long-Term Liabilities - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. The debt recorded in the District's General Long-Term Debt Account Group consists of serial bond issues and long-term debt retirements payable.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The budgeted amounts for the Governmental Funds are adopted on the cash basis, which is consistent with cash basis of accounting prescribed by the program accounting manual for Illinois school districts.

The Board of Education follows these procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. The Administration submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted and the proposed budget is available for inspection to obtain taxpayer comments.
3. Prior to September 30, the budget is legally adopted through passage of an resolution. By the last Tuesday in December, a tax levy resolution is filed with the county clerk to obtain tax revenues.
4. Management is authorized to transfer budget amounts, provided funds are transferred between the same function and object codes. The Board of Education is authorized to transfer up to a legal level of 10% of the total budget between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education, after following the public hearing process mandated by law.
5. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
6. All budget appropriations lapse at the end of the fiscal year.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (CONTINUED)

The budget amounts shown in the financial statements are as originally adopted because there were no amendments during the past fiscal year.

Excess of Expenditures over Budget

For the year ended June 30, 2007, expenditures exceeded budget in the Bond and Interest Fund by \$980. This excess was funded by available fund balance.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the District's cash and investments was comprised of the following:

	<i>Government- wide</i>	<i>Fiduciary</i>	<i>Total</i>
Cash and investments	\$ 8,316,064	\$ 198,719	\$ 8,514,783
Total	<u>\$ 8,316,064</u>	<u>\$ 198,719</u>	<u>\$ 8,514,783</u>

For disclosure purposes, this amount is segregated into the following components: deposits with financial institutions, which include amounts held in demand accounts, savings accounts and non-negotiable certificates of deposit; and other investments, which consist of all investments other than certificates of deposit, as follows:

	<i>Cash and investments</i>
Deposits with financial institutions	\$ 212,307
Other investments	<u>8,302,476</u>
Total	<u>\$ 8,514,783</u>

At year end, the District had the following investments:

<i>Investment Type</i>	<i>Fair Value</i>	<i>Weighted Average Maturity (In years)</i>
U.S. Government Agencies	\$ 5,200,592	3.00
Commercial Paper	1,871,513	0.13
Illinois Funds	850,161	N/A
Northern Trust - Money Market	<u>380,210</u>	N/A
Total	<u>\$ 8,302,476</u>	

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - (CONTINUED)

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the District's policy states the objectives of the District's investment activities to be meeting the school district's need for safety, liquidity, rate of return, and diversification, and its general performance. Maturity information on other investments is shown in the table above.

Credit Risk. State law limits investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized rating organizations (NRSRO's). The District has no investment policy that would further limit its investment choices. At June 30, 2007, the District's investment in commercial paper had ratings of A1-P1. At June 30, 2007, the District's investment in government securities had ratings of Moody's Aaa/S&P AAA.

The Illinois School District Liquid Asset Fund Plus (ISDLAF+) is a not-for-profit investment trust formed pursuant to the Illinois Municipal Code and managed by a Board of Trustees elected from participating members. Neither is registered with the SEC as an investment company. Investments are each rated AAAM and are valued at share price, which is the price for which the investment could be sold.

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds 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 Illinois Funds are valued at Illinois Funds' share price, which is the price for which the investment could be sold.

Concentration of Credit Risk. The District's investment policy requires diversification of the investment portfolio to minimize risk of loss arising from over-concentration in a particular type of security, risk factor, issuer or maturity. The policy requires diversification strategies to be determined and revised periodically by the District's Investment Officer to meet the District's ongoing need for safety, liquidity, and rate of return. At June 30, 2007, the District held more than 5% of its other investments portfolio in the following: American General Financial Corporation Commercial Paper (17.42%); HSBC Finance Corporation Commercial Paper (6.21%); Federal Home Loan Bank (12.54%); Federal National Mortgage Association (28.52%) and Federal Home Loan Mortgage Corporation (24.63%).

Custodial Credit Risk - Deposits. With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured by collateral in the event of default or failure of the financial institution holding the funds. As of June 30, 2007, the bank balance of the District's deposit with financial institutions totaled \$236,369, none of this amount was uncollateralized and uninsured.

Custodial Credit Risk - Investments. With respect to investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy limits the exposure to investment custodial credit risk by requiring all investments be secured by private insurance or collateral.

Separate cash and investment accounts are not maintained for all District funds; instead, the individual funds maintain their invested and uninvested balances in the common checking and investment accounts, with accounting records being maintained to show the portion of the common account balance attributable to each participating fund.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 4 - INTERFUND TRANSFERS

Also during the year, the Board of Education authorized the abatement of a portion of the Working Cash Fund, thereby transferring fund balance of \$500,000 to the Operations and Maintenance Fund.

State law allows for the above transfer.

NOTE 5 - OPERATING LEASES

The District leases equipment under noncancelable operating leases. Total costs for such leases were \$35,398 for the year ended June 30, 2007. At June 30, 2007, future minimum lease payments for these leases are as follows:

	<i>Year Ending June 30,</i>	<i>Amount</i>
2008		\$ 47,422
2009		47,422
2010		47,422
2011		47,422
2012		<u>23,717</u>
Total		<u>\$ 213,405</u>

NOTE 6 - LONG TERM LIABILITIES

Changes in General Long-term Liabilities. The following is the long-term liability activity for the District for the year ended June 30, 2007:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
General obligation bonds	\$ 1,213,000	\$ -	\$ 143,000	\$ 1,070,000	\$ 120,000
Total bonds payable	<u>1,213,000</u>	<u>-</u>	<u>143,000</u>	<u>1,070,000</u>	<u>120,000</u>
Debt certificates	<u>820,000</u>	<u>-</u>	<u>80,000</u>	<u>740,000</u>	<u>70,000</u>
Total long-term liabilities - governmental activities	<u>\$ 2,033,000</u>	<u>\$ -</u>	<u>\$ 223,000</u>	<u>\$ 1,810,000</u>	<u>\$ 190,000</u>

General Obligation Bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

<i>Purpose</i>	<i>Interest Rates</i>	<i>Carrying Amount</i>
General Obligation School Bonds, Series 2004	2.50% - 3.55%	\$ <u>1,070,000</u>
Total		\$ <u>1,070,000</u>

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 - LONG TERM LIABILITIES - (CONTINUED)

Annual debt service requirements to maturity for general obligation bonds are as follows for governmental type activities:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 120,000	\$ 33,890	\$ 153,890
2009	125,000	30,890	155,890
2010	125,000	27,452	152,452
2011	130,000	23,702	153,702
2012	135,000	19,478	154,478
2013 - 2017	<u>435,000</u>	<u>30,816</u>	<u>465,816</u>
Total	<u>\$ 1,070,000</u>	<u>\$ 166,228</u>	<u>\$ 1,236,228</u>

The District is subject to the Illinois School Code, which limits the amount of certain indebtedness to 6.9% of the most recent available equalized assessed valuation of the District. As of June 30, 2007, the statutory debt limit for the District was \$63,561,019, providing a debt margin of \$61,751,019. There are numerous covenants with which the District must comply in regard to these bond issues. As of June 30, 2007, the District was in compliance with all significant bond covenants, including federal arbitrage regulations.

Debt Certificates In 2006, the District entered into an agreement for \$820,000, to pay for the cost of energy maintenance repairs, renovations, and improvements. The obligations for the agreement will be repaid from the Operations and Maintenance Fund. Debt Certificates currently outstanding are as follows:

<i>Purpose</i>	<i>Interest Rates</i>	<i>Carrying Amount</i>
Debt Certificates, Series 2006	3.60% - 4.00%	\$ <u>740,000</u>
Total		\$ <u>740,000</u>

Annual debt service requirements to maturity for Debt Certificates are as follows for governmental type activities:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 70,000	\$ 14,391	\$ 84,391
2009	75,000	26,228	101,228
2010	75,000	23,452	98,452
2011	80,000	20,640	100,640
2012	80,000	17,600	97,600
2013 - 2017	<u>360,000</u>	<u>36,600</u>	<u>396,600</u>
Total	<u>\$ 740,000</u>	<u>\$ 138,911</u>	<u>\$ 878,911</u>

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to employee health benefits; workers' compensation claims; theft of, damage to, and destruction of assets; and natural disasters. To protect from such risks, the District participates in the following public entity risk pools: Suburban Cooperative Insurance Pool (SSCIP) which insures all of the District's property, general liability, automobile, employee dishonesty, and excess liability claims, and the School Employee Loss Fund (SELF) which covers workers' compensation claims. The District pays annual premiums to the pools for insurance coverage. The arrangements with the pools provide that each will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain levels established by the pools. There have been no significant reductions in insurance coverage from coverage in any of the past three fiscal years.

NOTE 8 - JOINT AGREEMENTS

The District is a member of LADSE (LaGrange Area Department Special Education), a joint agreement that provides certain special education services to residents of many school districts. The District believes that because it does not control the selection of the governing authority, and because of the control over employment of management personnel, operations, scope of public service, and special financing relationships exercised by the joint agreement governing boards, these are not included as component units of the District.

NOTE 9 - RETIREMENT SYSTEMS

The retirement plans of the District include the Teachers' Retirement System of the State of Illinois (TRS) and the Illinois Municipal Retirement Fund (IMRF). Most funding for TRS is provided through payroll withholdings of certified employees and contributions made by the State of Illinois on-behalf of the District. IMRF is funded through property taxes and a perpetual lien of the District's corporate personal property replacement tax. Each District retirement system is discussed below.

Teachers' Retirement System

The District participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing, multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the System's administration.

Members of TRS include all active nonannuitants that are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate for the year ended June 30, 2007, was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of the employees by the employer, are submitted to TRS by the District. The District's payroll for the year ended June 30, 2007, included \$4,229,028 reported as creditable earnings to TRS.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 9 - RETIREMENT SYSTEMS - (CONTINUED)

THIS Fund contributions. In addition, virtually all employers and members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan, covering retiree health insurance. The District's employer THIS Fund contribution was 0.6 percent of creditable earnings for the year ended June 30, 2007; the member THIS Fund health insurance contribution was 0.80 percent.

On Behalf Contributions. The State of Illinois also makes contributions directly to TRS on behalf of the District's TRS-covered employees. For the year ended June 30, 2007, State of Illinois contributions were based on 9.78 percent of creditable earnings, and the District recognized revenue and expenditures of \$413,599 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2006 and 2005, the State of Illinois contributions rates as percentages of creditable earnings were 7.06 percent (\$267,149) and 11.76 percent (\$478,528), respectively. The state contributions to TRS for the years ended June 30, 2007 and 2006, were based on dollar amounts specified by the statute and were not actuarially determined. The state contributions for the year ended June 30, 2005 were based on an actuarial formula.

The District also makes other additional types of employer contributions directly to TRS.

2.2 Formula Contributions. For the years ended June 30, 2007, 2006 and 2005, the District contributed 0.58 percent of creditable earnings for a 2.2 formula change. This rate is specified by statute. Contributions for those years were \$24,528, \$22,704 and \$23,601, respectively.

TRS financial information, an explanation of TRS's benefits; and descriptions of member, employer and state funding requirements, can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2006. The report for the year ended June 30, 2007, is expected to be available in late 2007. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253. The most current report is also available on the TRS Web site at www.trs.illinois.gov

Illinois Municipal Retirement Fund

The District's defined benefit pension plan, Illinois Municipal Retirement (IMRF), provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. IMRF is an agent multiple employer pension plan that acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at www.imrf.org/pubs/pubs_homepage.htm or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The member rate is established by state statute. The District is required to contribute at an actuarially determined rate. The employer rate for calendar year 2006 was 10.05 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2006 was 26 years.

BUTLER ELEMENTARY SCHOOL DISTRICT NO. 53

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 9 - RETIREMENT SYSTEMS - (CONTINUED)

For December 31, 2006, December 31, 2005 and December 31, 2004 the District's annual pension cost of \$56,504, \$59,694 and \$57,092, respectively, was equal to the District's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

NOTE 10 - CONSTRUCTION COMMITMENTS

As of June 30, 2007, the District is committed to approximately \$1,097,257 in expenditures in the upcoming years for various construction projects. These expenditures will be paid through the available fund balances and building bonds already issued.

NOTE 11 - STATE AND FEDERAL AID CONTINGENCIES

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowance, if any, would be immaterial.

Butler Elementary School District No. 53
AFR ITEMIZATION
June 30, 2007

Itemization

Page 4, Line 12 Other Current Assets
Page 6, Line 38 Other Current Liabilities
Page 11, Line 81 Other (Other Revenue from Local Sources)
Page 11, Line 91 Other Unrestricted Grants-in-Aid from State Sources
Page 14, Line 222 Other Revenue from Federal Sources
O&M Fund - Page 17, Line 87 Other (Debt Service - Interest)
B&I Fund - Page 18, Line 104 Debt Service - Other

Description

Student Activity Funds
Student Activity Funds
Other Revenues, Clean Energy Grant
Transition Assistance
Library Grant - Per Capita
2006 Debt Certificates - Interest
Bond Principal Retired