

**BETTSVILLE LOCAL
SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

KAREN J. BOTZKO, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Bettsville Local School District
118 Washington Street
Bettsville, Ohio 44815

We have reviewed the Independent Auditor's Report of the Bettsville Local School District, Seneca County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Bettsville Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 18, 2005

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**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

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Independent Auditor's Report

Board of Education
Bettsville Local School District
118 Washington Street
Bettsville, Ohio 44815

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bettsville Local School District (the “District”), Ohio, as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bettsville Local School District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Bettsville Local School District, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund and the Migrant fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the Bettsville Local School District implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to errors and omissions in prior years as noted in Note 9.

Independent Auditor's Report
Bettsville Local School District

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2004 on our consideration of the Bettsville Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
December 6, 2004

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$45,801 which represents a 0.73% increase from 2003.
- General revenues accounted for \$2,027,170 in revenue or 67.72% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$966,361 or 32.28% of total revenues of \$2,993,531.
- The District had \$2,947,730 in expenses related to governmental activities; \$966,361 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$2,027,170 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, the permanent improvement fund, and the migrant fund. The general fund had \$2,214,569 in revenues and \$2,069,258 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$167,408 from \$364,079 to \$531,487.
- The permanent improvement fund had \$42,747 in revenues and \$40,744 in expenditures. During fiscal year 2004, the permanent improvement fund balance increased \$8,056 from \$684,575 to \$692,631.
- The migrant fund had \$312,508 in revenues and \$230,422 in expenditures. During fiscal year 2004, the migrant fund balance increased \$82,086 from \$48,149 to \$130,235.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, permanent improvement fund and migrant fund are by far the most significant funds, and the only governmental funds reported as major funds.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, permanent improvement fund and migrant fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Fiduciary Funds

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities
	<u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 2,196,976
Capital assets	<u>5,474,536</u>
Total assets	<u>7,671,512</u>
<u>Liabilities</u>	
Current liabilities	640,823
Long-term liabilities	<u>674,563</u>
Total liabilities	<u>1,315,386</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	4,884,731
Restricted	1,068,557
Unrestricted	<u>402,838</u>
Total net assets	<u>\$ 6,356,126</u>

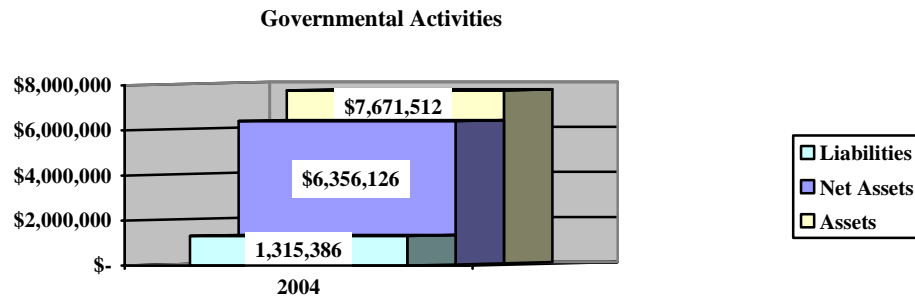
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$6,356,126. Of this total, \$402,838 is unrestricted in use.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

At year-end, capital assets represented 71.36% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$4,884,731. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,068,557, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$402,838 may be used to meet the District's ongoing obligations to the students and creditors. The table below illustrates the District's assets, liabilities and net assets at June 30, 2004.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 355,583
Operating grants and contributions	604,728
Capital grants and contributions	6,050
General revenues:	
Property taxes	657,811
Grants and entitlements	1,142,631
Investment earnings	29,000
Miscellaneous	<u>197,728</u>
 Total revenues	 <u>2,993,531</u>

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 1,248,962
Special	422,900
Support services:	
Pupil	106,721
Instructional staff	74,362
Board of education	9,810
Administration	251,780
Fiscal	157,826
Business	85
Operations and maintenance	278,741
Pupil transportation	130,451
Food service operations	108,927
Other non-instructional services	14,830
Extracurricular activities	108,686
Interest and fiscal charges	<u>33,649</u>
Total expenses	<u>2,947,730</u>
Increase in net assets	<u>\$ 45,801</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$45,801. Total governmental expenses of \$2,947,730 were offset by program revenues of \$966,361 and general revenues of \$2,027,170. Program revenues supported 32.78% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 67.72% of total governmental revenue.

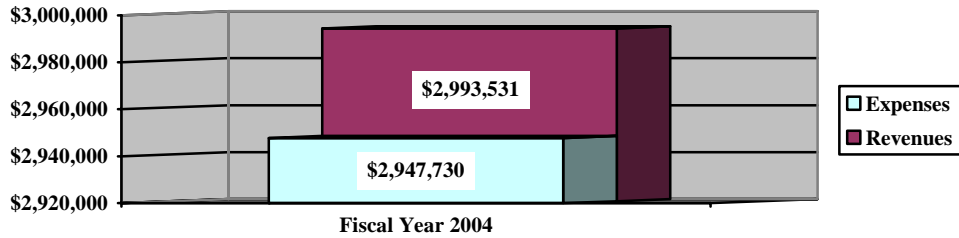
The largest expense of the District is for instructional programs. Instruction expenses totaled \$1,671,862 or 56.72% of total governmental expenses for fiscal year 2004.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

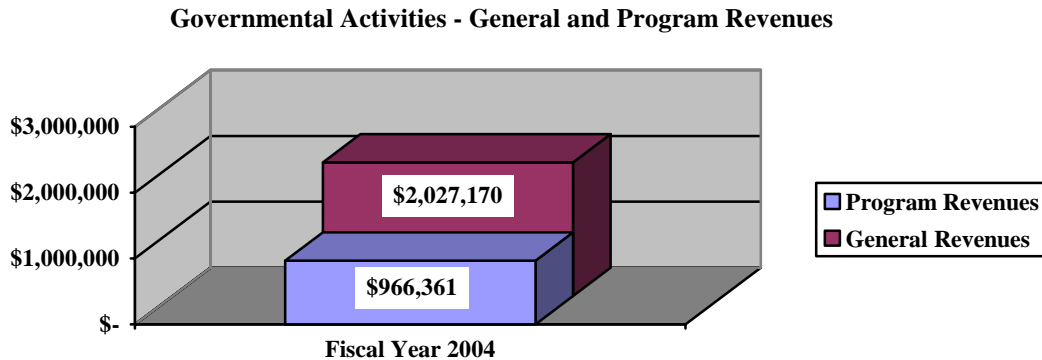
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 1,248,962	\$ 795,770
Special	422,900	111,760
Support services:		
Pupil	106,721	106,721
Instructional staff	74,362	45,531
Board of education	9,810	9,810
Administration	251,780	228,441
Fiscal	157,826	155,029
Business	85	85
Operations and maintenance	278,741	270,503
Pupil transportation	130,451	101,339
Other non-instructional services	14,830	14,830
Food service operations	108,927	24,417
Extracurricular activities	108,686	83,484
Interest and fiscal charges	33,649	33,649
Total expenses	<u><u>\$ 2,947,730</u></u>	<u><u>\$ 1,981,369</u></u>

The dependence upon tax and other general revenues for governmental activities is apparent, 54.28% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 67.22%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,501,755, which is higher than last year's total of \$1,283,231. The June 30, 2003 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	(Restated) Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 531,487	\$ 364,079	\$ 167,408	45.98 %
Permanent Improvement	692,631	684,575	8,056	1.18 %
Migrant	130,235	48,149	82,086	170.48 %
Other Governmental	<u>147,402</u>	<u>186,428</u>	<u>(39,026)</u>	(20.93) %
Total	<u>\$ 1,501,755</u>	<u>\$ 1,283,231</u>	<u>\$ 218,524</u>	17.03 %

General Fund

The District's general fund, fund balance increased by \$167,408 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A to the basic financial statements). Revenues exceed expenditures for fiscal year 2004 by \$145,311. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 622,696	\$ 584,173	\$ 38,523	6.59 %
Tuition	269,140	187,360	81,780	43.65 %
Earnings on investments	27,106	31,717	(4,611)	(14.54) %
Intergovernmental	1,135,071	1,179,885	(44,814)	(3.80) %
Other revenues	<u>160,556</u>	<u>107,952</u>	<u>52,604</u>	48.73 %
 Total	 <u>\$ 2,214,569</u>	 <u>\$ 2,091,087</u>	 <u>\$ 123,482</u>	 5.91 %
<u>Expenditures</u>				
Instruction	\$ 1,144,962	\$ 1,099,959	\$ 45,003	4.09 %
Support services	847,613	930,937	(83,324)	(8.95) %
Extracurricular activities	65,703	59,574	6,129	10.29 %
Debt service	<u>10,980</u>	<u>10,980</u>	<u>-</u>	- %
 Total	 <u>\$ 2,069,258</u>	 <u>\$ 2,101,450</u>	 <u>\$ (32,192)</u>	 (1.53) %

Permanent Improvement Fund

Another of the District's major governmental fund is the permanent improvement fund. The permanent improvement fund had \$42,747 in revenues and \$40,744 in expenditures. During fiscal year 2004, the permanent improvement fund's fund balance increased \$8,056 from \$684,575 to \$692,631.

Migrant Fund

Another of the District's major government funds is the migrant fund. The migrant fund had \$312,508 in revenues and \$230,422 in expenditures. During fiscal year 2004, the fund balance increased \$82,086 from \$48,149 to \$130,235.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$2,159,183 and final budgeted revenues and other financing sources were \$2,276,422. Actual revenues and other financing sources for fiscal year 2004 was \$2,272,683. This represents an \$113,500 increase over original budgeted revenues.

General fund original appropriations and other financing uses were \$2,230,299 and final appropriations and other financing uses totaled \$2,148,168. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$2,116,180, which is lower than the final budget appropriations by \$31,988.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$5,474,536 invested in land, and improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 84,650	\$ 84,650
Land improvements	83,201	89,216
Building and improvements	5,061,448	5,193,376
Furniture and equipment	155,913	172,889
Vehicles	89,324	107,553
 Total	 \$ 5,474,536	 \$ 5,647,684

The overall decrease in capital assets of \$173,148 is due to depreciation expense of \$196,302 exceeding capital outlay of \$23,154 in the fiscal year. The increase in capital outlay is a result of acquisition of miscellaneous equipment.

See Note 9 to the basic financial statements for additional information.

Debt Administration

At June 30, 2004, the District had \$24,805 in capital leases, \$565,000 in general obligation bonds outstanding, and \$84,758 in compensated absences outstanding. Of this total, \$47,295 is due within one year and \$627,268 is due in greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2004	2003
Capital lease	\$ 24,805	\$ 33,423
General obligation bond	565,000	580,000
Compensated absences	84,758	69,673
 Total	 \$ 674,563	 \$ 683,096

At June 30, 2004, the District's overall legal debt margin was \$1,322,576, and an unvoted debt margin of \$19,891.

See Note 11 to the basic financial statements for additional information.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Current Financial Related Activities

The District faces many challenges in the future. Bettsville is a very small district with currently 248 students housed in one K-12 building.

Decreasing enrollment is a major concern. We are graduating classes of 25 kids and 12 students are entering kindergarten. A new village sewage plant is in the process of being constructed and should be completed summer 2005. This will allow people to build new homes in the District and hopefully bring in families with young children and also property tax and school income tax monies.

The decreased enrollment affects our state funding and Bettsville leans heavily on state funding. Local valuation is very low and one mill generates \$19,000 - \$20,000. Bettsville taxpayers have approved a 1% school income tax for the third time, so that helps keep us alive, but we also have many unfunded mandates.

We rely on grants/Title funds and tax abatements to keep us alive. We have a summer Migrant program that runs from the end of July to mid August. Many of our staff members are employed for that time period as teachers, bus drivers, cooks, custodians and administration. Students are employed as teacher aides. We also have a Migrant/Image program where teachers/tutors in the state go out to the Migrant camps and tutor students. Both of these programs generate revenue for the District. We currently have three tax abatements that pay money directly to the school.

FY02 we completed an Ohio School Facilities Project. The current school building was renovated and a new high school wing was constructed. This gave us more space for our many school classes and programs.

We approved a teacher negotiation this summer. A new medical (PPO) insurance was approved. This will save the District money.

The five-year forecast shows that we should be in good shape for the current year and the next one or two years and then we don't know what will happen. Hopefully, the state will be able to increase state funding basic aid and other categories.

The Board and Administration are looking at ways to increase revenue and decrease expense. Survival is our greatest concern.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Karen Botzko, Treasurer, Bettsville Local School District, 118 Washington Street, P.O. Box 6, Bettsville, Ohio 44815-0006.

**BASIC
FINANCIAL STATEMENTS**

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,248,959
Cash with fiscal agent.	168,865
Receivables:	
Taxes	550,386
Accounts	3,753
Accrued interest	2,824
Due from other governments.	183,772
Prepayments	22,790
Materials and supplies inventory	15,627
Capital assets:	
Land	84,650
Depreciable capital assets, net	5,389,886
Capital assets, net.	<u>5,474,536</u>
 Total assets.	 <u>7,671,512</u>
Liabilities:	
Accounts payable.	15,612
Accrued wages and benefits	157,167
Pension obligation payable.	52,636
Due to other governments	4,202
Deferred revenue	408,709
Accrued interest payable	2,497
Long-term liabilities:	
Due within one year.	47,295
Due in more than one year.	627,268
Total liabilities	<u>1,315,386</u>
Net Assets:	
Invested in capital assets, net	
of related debt.	4,884,731
Restricted for:	
Capital projects	698,681
Debt service.	98,585
Other purposes	271,291
Unrestricted.	<u>402,838</u>
Total net assets	<u>\$ 6,356,126</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 1,248,962	\$ 277,572	\$ 169,570	\$ 6,050	\$ (795,770)
Special	422,900	484	310,656	-	(111,760)
Support services:					
Pupil	106,721	-	-	-	(106,721)
Instructional staff	74,362	-	28,831	-	(45,531)
Board of education	9,810	-	-	-	(9,810)
Administration	251,780	-	23,339	-	(228,441)
Fiscal	157,826	-	2,797	-	(155,029)
Business	85	-	-	-	(85)
Operations and maintenance	278,741	-	8,238	-	(270,503)
Pupil transportation	130,451	-	29,112	-	(101,339)
Operation of non-instructional services:					
Food service operations	108,927	52,325	32,185	-	(24,417)
Other non-instructional services	14,830	-	-	-	(14,830)
Extracurricular activities	108,686	25,202	-	-	(83,484)
Interest and fiscal charges	33,649	-	-	-	(33,649)
Total governmental activities	<u>\$ 2,947,730</u>	<u>\$ 355,583</u>	<u>\$ 604,728</u>	<u>\$ 6,050</u>	<u>(1,981,369)</u>

General Revenues:

Income taxes and property taxes levied for:	
General purposes	594,163
Special revenue	8,874
Debt service	54,774
Grants and entitlements not restricted	
to specific programs	1,142,631
Investment earnings	29,000
Miscellaneous	197,728
Total general revenues	<u>2,027,170</u>
Change in net assets	45,801
Net assets at beginning of year	6,310,325
Net assets at end of year	<u>\$ 6,356,126</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Migrant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 302,526	\$ 693,898	\$ 41,644	\$ 143,305	\$ 1,181,373
Cash with fiscal agent.	168,865	-	-	-	168,865
Receivables:					
Taxes.	487,249	-	-	63,137	550,386
Accounts	412	-	-	3,341	3,753
Accrued interest	2,824	-	-	-	2,824
Due from other governments	-	-	178,919	4,853	183,772
Prepayments	19,067	-	-	3,723	22,790
Materials and supplies inventory	10,347	-	-	5,280	15,627
Restricted assets:					
Equity in pooled cash and cash equivalents.	67,586	-	-	-	67,586
Total assets	<u>\$ 1,058,876</u>	<u>\$ 693,898</u>	<u>\$ 220,563</u>	<u>\$ 223,639</u>	<u>\$ 2,196,976</u>
Liabilities:					
Accounts payable	\$ 10,973	\$ 1,267	\$ 845	\$ 2,527	\$ 15,612
Accrued wages and benefits	127,494	-	14,679	14,994	157,167
Pension obligation payable	21,736	-	4,586	2,858	29,180
Due to other governments	2,947	-	1,099	156	4,202
Deferred revenue.	364,239	-	69,119	55,702	489,060
Total liabilities.	<u>527,389</u>	<u>1,267</u>	<u>90,328</u>	<u>76,237</u>	<u>695,221</u>
Fund Balances:					
Reserved for encumbrances	18,487	-	4,536	2,464	25,487
Reserved for materials and supplies inventory.	10,347	-	-	5,280	15,627
Reserved for prepayments	19,067	-	-	3,723	22,790
Reserved for debt service	-	-	-	91,109	91,109
Reserved for property tax unavailable for appropriation	48,557	-	-	7,434	55,991
Reserved for bus purchase allowance	58,372	-	-	-	58,372
Reserved for budget stabilization	9,214	-	-	-	9,214
Unreserved:					
Designation for budget stabilization.	25,390	-	-	-	25,390
Undesignated, reported in:					
General fund	342,053	-	-	-	342,053
Special revenue funds	-	-	125,699	31,342	157,041
Capital projects funds	-	692,631	-	6,050	698,681
Total fund balances	<u>531,487</u>	<u>692,631</u>	<u>130,235</u>	<u>147,402</u>	<u>1,501,755</u>
Total liabilities and fund balances	<u>\$ 1,058,876</u>	<u>\$ 693,898</u>	<u>\$ 220,563</u>	<u>\$ 223,639</u>	<u>\$ 2,196,976</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 1,501,755
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,474,536
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 10,823	
Intergovernmental revenue	69,119	
Accrued interest	409	
Total		80,351
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(84,758)	
Pension obligation payable	(23,456)	
Capital lease payable	(24,805)	
General obligation bonds payable	(565,000)	
Accrued interest payable	(2,497)	
Total		(700,516)
Net assets of governmental activities		\$ 6,356,126

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Permanent Improvement	Migrant	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 622,696	\$ -	\$ -	\$ 68,003	\$ 690,699
Tuition.	269,140	-	-	-	269,140
Charges for services.	-	-	484	52,325	52,809
Earnings on investments.	27,106	1,841	-	23	28,970
Extracurricular.	-	-	-	25,202	25,202
Classroom materials and fees	8,432	-	-	-	8,432
Other local revenues.	25,648	40,906	45,000	5,945	117,499
Other revenue.	1,247	-	-	-	1,247
Intergovernmental - State.	1,134,511	-	-	47,378	1,181,889
Intergovernmental - Federal	560	-	267,024	230,734	498,318
Donations	125,229	-	-	-	125,229
Total revenues	2,214,569	42,747	312,508	429,610	2,999,434
Expenditures:					
Current:					
Instruction:					
Regular	978,458	36,217	1,902	160,054	1,176,631
Special.	166,504	-	146,098	95,023	407,625
Support services:					
Pupil.	92,694	-	-	-	92,694
Instructional staff	38,739	-	21,276	-	60,015
Board of education	9,810	-	-	-	9,810
Administration.	225,433	492	17,433	807	244,165
Fiscal	151,564	-	2,051	213	153,828
Operations and maintenance.	247,423	4,035	5,343	16,187	272,988
Pupil transportation	81,950	-	21,489	-	103,439
Food service operations	-	-	-	95,820	95,820
Other non-instructional services.	-	-	14,830	-	14,830
Extracurricular activities.	65,703	-	-	25,752	91,455
Debt service:					
Principal retirement	8,618	-	-	15,000	23,618
Interest and fiscal charges	2,362	-	-	31,630	33,992
Total expenditures	2,069,258	40,744	230,422	440,486	2,780,910
Excess of revenues under expenditures	145,311	2,003	82,086	(10,876)	218,524
Other financing sources (uses):					
Transfers in	37,981	6,053	-	15,884	59,918
Transfers (out).	(15,884)	-	-	(44,034)	(59,918)
Total other financing sources (uses)	22,097	6,053	-	(28,150)	-
Net change in fund balances	167,408	8,056	82,086	(39,026)	218,524
Fund balances at beginning of year (restated)	364,079	684,575	48,149	186,428	1,283,231
Fund balances at end of year.	\$ 531,487	\$ 692,631	\$ 130,235	\$ 147,402	\$ 1,501,755

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	218,524
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		(173,148)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,903)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		23,618
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		343
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(17,633)
Change in net assets of governmental activities	\$	45,801

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 563,960	\$ 594,582	\$ 593,622	\$ (960)
Tuition.	255,279	269,140	269,140	-
Earnings on investments.	24,032	25,337	25,292	(45)
Classroom materials and fees	9,485	10,000	8,071	(1,929)
Other local revenues	191,852	202,269	201,961	(308)
Other revenue.	1,183	1,247	1,247	-
Intergovernmental - State	1,076,573	1,135,029	1,134,511	(518)
Intergovernmental - Federal.	531	560	560	-
Total revenues	<u>2,122,895</u>	<u>2,238,164</u>	<u>2,234,404</u>	<u>(3,760)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,045,167	1,006,679	990,530	16,149
Special.	171,207	164,902	166,110	(1,208)
Support services:				
Pupil.	99,865	96,187	91,371	4,816
Instructional staff	39,561	38,104	38,716	(612)
Board of education	12,192	11,743	9,686	2,057
Administration.	239,544	230,723	226,600	4,123
Fiscal	160,483	154,573	154,290	283
Operations and maintenance.	275,378	265,237	269,561	(4,324)
Pupil transportation	100,268	96,576	87,395	9,181
Extracurricular activities.	62,755	60,444	59,099	1,345
Total expenditures	<u>2,206,420</u>	<u>2,125,168</u>	<u>2,093,358</u>	<u>31,810</u>
Excess of revenues over (under) expenditures.	<u>(83,525)</u>	<u>112,996</u>	<u>141,046</u>	<u>28,050</u>
Other financing sources (uses):				
Transfers in.	36,025	37,981	38,002	21
Transfers (out)	(23,879)	(23,000)	(22,822)	178
Advances in.	263	277	277	-
Total other financing sources (uses)	<u>12,409</u>	<u>15,258</u>	<u>15,457</u>	<u>199</u>
Net change in fund balance	(71,116)	128,254	156,503	28,249
Fund balance at beginning of year.	164,083	164,083	164,083	-
Prior year encumbrances appropriated	27,002	27,002	27,002	-
Fund balance at end of year	<u>\$ 119,969</u>	<u>\$ 319,339</u>	<u>\$ 347,588</u>	<u>\$ 28,249</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MIGRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Charges for services	\$ 373	\$ 483	\$ 483	\$ -
Other revenue	34,783	45,000	45,000	-
Intergovernmental - Federal	237,211	306,884	167,224	(139,660)
Total revenues	<u>272,367</u>	<u>352,367</u>	<u>212,707</u>	<u>(139,660)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,392	3,036	1,058	1,978
Special	217,383	275,960	133,673	142,287
Support services:				
Pupil	148	188	-	188
Instructional staff	16,760	21,276	21,276	-
Administration	20,710	26,290	17,298	8,992
Fiscal	2,145	2,723	2,195	528
Operations and maintenance	4,210	5,344	5,344	-
Pupil transportation	22,478	28,535	21,489	7,046
Operation of non-instructional services	10,660	13,532	14,891	(1,359)
Total expenditures	<u>296,886</u>	<u>376,884</u>	<u>217,224</u>	<u>159,660</u>
Net change in fund balance	(24,519)	(24,517)	(4,517)	20,000
Fund balance at beginning of year	39,552	39,552	39,552	-
Prior year encumbrances appropriated	188	188	188	-
Fund balance at end of year	<u>\$ 15,221</u>	<u>\$ 15,223</u>	<u>\$ 35,223</u>	<u>\$ 20,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 28,937
Receivables:	
Accounts	<u>52</u>
Total assets.	<u>\$ 28,989</u>
Liabilities:	
Accounts payable.	\$ 1,082
Due to students	<u>27,907</u>
Total liabilities	<u>\$ 28,989</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Bettsville Local School District (the "District") is located in Seneca County and encompasses the Village of Bettsville. The District serves an area of approximately 17 square miles.

The District was established in 1841 through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 608th largest by enrollment among the 613 public school districts in the state and 7th in Seneca County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school located in one building. The District employs 12 non-certified and 21 certified employees to provide services to 248 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PUBLIC ENTITY RISK POOLS

Seneca County Joint Insurance Trust (the "Association")

This organization is an insurance pool between the Seneca/Wyandot Educational Service Center, the Sandusky County Educational Service Center, and five local school districts: Tiffin, Old Fort, Bettsville, Seneca East and New Riegel. The Association was established pursuant to ORC Section 9.833 in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts and educational service centers. The North Central Ohio Educational Service Center acts as fiscal agent. Refer to Note 12 for further information on the association.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program was established as an insurance purchasing pool. The Group Rating Program is governed by a three-member Board of Directors. The Executive Director of the Ohio School Boards Association, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Group Rating Program to cover the costs of administering the program. Refer to Note 12 for further information on this group rating program.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of 41 public school districts 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 NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. The District paid \$23,403 to NOECA in fiscal year 2004 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. The District does not have proprietary funds.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Migrant Fund - The Migrant fund is used to account for instructional programs of children of migratory agricultural workers.

Permanent Improvement Fund - The Permanent Improvement capital projects fund is used to account for all transactions related to acquiring, constructing, or improving capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs; (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental 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 governmental funds.

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District other than cash with fiscal agent is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, investments were limited to certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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, 2003. The District was not invested in STAR Ohio at June 30, 2004.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$27,106 which includes \$20,275 assigned from other District funds.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer’s investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,000. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; 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.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture/equipment	5 - 20 years
Vehicles	8 years

I. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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 noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability in the fund financial statements when due.

K. Fund Balance Reserves and Designations

The 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 balances are reserved for encumbrances, materials and supplies inventory, prepayments, debt service, tax revenue unavailable for appropriation, budget stabilization and bus purchase allowance. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

Designated fund balance represents planned actions for monies set-aside by the District for budget stabilization.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

N. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization and school bus purchases. See Note 17 for details.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the District switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance – In addition, a fund reclassification is required to report the District's internal portion of the Ohio Mid-Eastern Regional Education Service Agency (OMERESA) investment pool as part of the general fund. GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Interpretation No. 6 and fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Migrant</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance					
June 30, 2003	\$ 351,131	\$ 684,575	\$ 47,936	\$ 176,456	\$ 1,260,098
Fund reclassification	-	-	-	9,972	9,972
Implementation of GASB					
Interpretation No. 6	<u>12,948</u>	<u>-</u>	<u>213</u>	<u>-</u>	<u>13,161</u>
Adjusted fund balance,					
June 30, 2003	<u>\$ 364,079</u>	<u>\$ 684,575</u>	<u>\$ 48,149</u>	<u>\$ 186,428</u>	<u>\$ 1,283,231</u>

The transition from governmental fund balances to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2003	\$ 1,283,231
GASB 34 adjustments:	
Long-term (deferred) assets	86,254
Capital assets	5,647,684
Accrued interest payable	(2,840)
Long-term liabilities	<u>(704,004)</u>
Governmental activities	
net assets, June 30, 2003	<u>\$ 6,310,325</u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	
EMIS	\$ 3,399
Title I	4,143
IDEA Part B	3
Classroom Reduction Grant	11

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

State statute classifies monies held by the 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 District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, 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 securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 Treasury Asset Reserve of Ohio (STAR Ohio);

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with Fiscal Agent: At June 30, 2004, the District had \$168,865 in cash held by the Ohio Mid-Eastern Regional Education Service Agency, which is included on the balance sheet as "Cash with Fiscal Agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,277,896 and the bank balance was \$959,976. Of the bank balance:

1. \$114,773 was covered by federal deposit insurance; and
2. \$845,203 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>
GASB Statement No. 9	\$ 1,446,761
Investments of the cash management pool:	
Cash with fiscal agent	<u>(168,865)</u>
GASB Statement No. 3	<u>\$ 1,277,896</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers to general fund from:	
Nonmajor governmental funds	\$ 37,981
Transfers to permanent improvement fund from:	
Nonmajor governmental funds	6,053
Transfers to nonmajor governmental funds from:	
General fund	15,884

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised code Sections 5705.14, 5705.15 and 5705.16.

In addition, the District received court approval to transfer money out of the Bond retirement fund to the general fund as all related indebtedness, interest, and other obligations have been paid and retired.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

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

The District receives property taxes from Seneca County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$48,557 in the general fund, \$6,265 in the debt service fund, and \$1,169 in the Classroom Facilities Maintenance Fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$29,212 in the general fund, \$3,772 in the debt service fund, and \$690 in the Classroom Facilities Maintenance Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2003 Second		2004 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 16,309,570	81.70	\$ 16,441,420	82.66
Public utility personal	1,322,650	6.63	1,340,490	6.74
Tangible personal property	<u>2,329,055</u>	<u>11.67</u>	<u>2,109,221</u>	<u>10.60</u>
Total	<u>\$ 19,961,275</u>	<u>100.00</u>	<u>\$ 19,891,131</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$	35.00	\$	35.00
Debt Service		3.50		3.50

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax at the November 2003 election that became effective January 1, 1999. This tax is effective for five years. School district income tax revenue received by the general fund during fiscal year 2004 was \$183,199.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. 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 year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes - current and delinquent	\$ 550,386
Accounts	3,753
Due from other governments	183,772
Accrued interest	<u>2,824</u>
Total receivables	<u>\$ 740,735</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to fund reclassifications, asset category reclassifications, and the depreciation of capital assets in accordance with GASB Statement No. 34 and prior years errors and omissions.

	Balance		Restated
	<u>June 30, 2003</u>	<u>Adjustments</u>	<u>Balance</u>
			<u>June 30, 2003</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 84,650	\$ 84,650
Total capital assets, not being depreciated	<u>-</u>	<u>84,650</u>	<u>84,650</u>
Capital assets, being depreciated:			
Land improvements	204,950	(84,650)	120,300
Building/improvements	6,272,920	-	6,272,920
Furniture/equipment	372,610	29,694	402,304
Vehicles	<u>202,968</u>	<u>-</u>	<u>202,968</u>
Total capital assets, being depreciated	<u>7,053,448</u>	<u>(54,956)</u>	<u>6,998,492</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(1,435,458)</u>	<u>(1,435,458)</u>
Governmental activities capital assets, net	<u>\$ 7,053,448</u>	<u>\$ (1,405,764)</u>	<u>\$ 5,647,684</u>

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year-ended June 30, 2004, was as follows:

	Restated Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 84,650	\$ -	\$ -	\$ 84,650
Total capital assets, not being depreciated	<u>84,650</u>	<u>-</u>	<u>-</u>	<u>84,650</u>
Capital assets, being depreciated:				
Land improvements	120,300	-	-	120,300
Building/improvements	6,272,920	-	-	6,272,920
Furniture/equipment	402,304	23,154	-	425,458
Vehicles	202,968	-	-	202,968
Total capital assets, being depreciated	<u>6,998,492</u>	<u>23,154</u>	<u>-</u>	<u>7,021,646</u>
Less: accumulated depreciation				
Land improvements	(31,084)	(6,015)	-	(37,099)
Building/improvements	(1,079,544)	(131,928)	-	(1,211,472)
Furniture/equipment	(229,415)	(40,130)	-	(269,545)
Vehicles	(95,415)	(18,229)	-	(113,644)
Total accumulated depreciation	<u>(1,435,458)</u>	<u>(196,302)</u>	<u>-</u>	<u>(1,631,760)</u>
Governmental activities capital assets, net	<u>\$ 5,647,684</u>	<u>\$ (173,148)</u>	<u>\$ -</u>	<u>\$ 5,474,536</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 85,986
Special	16,579
Support Services:	
Pupil	11,619
Instructional staff	13,981
Administration	3,877
Fiscal	2,631
Business	85
Operations and maintenance of plant	4,471
Pupil transportation	26,794
Extracurricular	17,223
Food service	<u>13,056</u>
Total depreciation expense	<u>\$ 196,302</u>

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the District entered into a capitalized lease for the acquisition of a copier. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reflected as function expenditures on the budgetary statements. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2004 fiscal year totaled \$8,618, paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004.

Year Ending June 30	Amount
2005	\$ 10,980
2006	10,980
2007	5,490
Total minimum lease payment	27,450
Less: amount representing interest	(2,645)
Present value of minimum lease payments	\$ 24,805

NOTE 11 - LONG-TERM OBLIGATIONS

A. During fiscal year 2001, the District issued \$610,000 in general obligation bonds to provide funds for the renovation of the school building and the construction of the high school addition (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.00 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC).

In conjunction with the 3.0 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance cost of the new facilities.

Principal and interest payments on the current interest bonds are due on December 1, and interest only payment on June 1, of each year. The final maturity stated in the issue is December 1, 2023.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. The following is a description of the District's bonds outstanding as of June 30, 2004:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 07/01/03</u>	<u>Bonds Retired in Fiscal 2004</u>	<u>Balance 06/30/04</u>
School improvement bonds	5.39%	12/01/23	\$ 580,000	\$ (15,000)	\$ 565,000

C. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

<u>Fiscal Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2005	\$ 20,000	\$ 29,613	\$ 49,613
2006	20,000	28,808	48,808
2007	20,000	27,993	47,993
2008	20,000	27,163	47,163
2009	20,000	26,318	46,318
2010 - 2014	115,000	117,380	232,380
2015 - 2019	150,000	81,608	231,608
2020 - 2024	200,000	30,421	230,421
Total	\$ 565,000	\$ 369,304	\$ 934,304

D. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$17,773 from \$51,900 to \$69,673 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$18,775 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$1,002 from \$684,098 to \$683,096. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Restated Balance June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 69,673	\$ 30,358	\$ (15,273)	\$ 84,758	\$ 17,962
General obligation bonds payable	580,000	-	(15,000)	565,000	20,000
Capital lease obligation	33,423	-	(8,618)	24,805	9,333
Total governmental activities long-term liabilities	\$ 683,096	\$ 30,358	\$ (38,891)	\$ 674,563	\$ 47,295

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$1,322,576 (including available funds of \$91,109) an unvoted debt margin of \$19,891.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Harcum-Schuett		
Each occurrence	Ohio School Plan	\$1,000,000	\$ -
Aggregate		3,000,000	-
Excess liability:	Harcum-Schuett		
Each occurrence	Ohio School Plan	2,000,000	-
Aggregate		2,000,000	-
Building and contents	Westfield Insurance	7,275,833	5,000
Fleet:			
Combined liability	Auto Owners	1,000,000	-
Underinsured/uninsured motorist	Mutual Insurance	1,000,000	-
Collision		Carrying Value	1,000
Boiler and machinery	Cincinnati Insurance	500,000	500

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

B. Health Insurance

The District joined together with other area school districts to form the Seneca County Joint Insurance Trust, a public entity risk pool for seven member school districts. The risk of loss transfers entirely to the pool. The pool is self-sustaining through member premiums. The District paid a monthly premium to the pool for health insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 2.A). The Group Rating Program'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 Ohio School Boards Association. The Executive Director of the Ohio School Boards Association, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Group Rating Program to cover the costs of administering the program.

The intent of the Group Rating Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Group Rating Program. 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 Group Rating Program. Each participant pays its workers' compensation premium to the state based on the rate for the Group Rating Program 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 Group Rating Program. 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 Group Rating Program. Participation in the Group Rating Program is limited to school districts that can meet the Group Rating Program's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Group Rating Program.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$49,441, \$45,451, and \$43,881, respectively; 51% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$24,432, represents the unpaid contribution for fiscal year 2004.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$133,815, \$125,670, and \$125,943, respectively; 84% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$21,036 represents the unpaid contribution for fiscal year 2004.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 the 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$9,558 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$12,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$24,508 during the 2004 fiscal year.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund and migrant 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and the migrant fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Migrant Fund</u>
Budget basis	\$ 156,503	\$ (4,517)
Net adjustment for revenue accruals	(19,835)	99,801
Net adjustment for expenditure accruals	1,576	(19,619)
Net adjustment for other sources/uses	6,640	-
Adjustment for encumbrances	<u>22,524</u>	<u>6,421</u>
GAAP basis	<u>\$ 167,408</u>	<u>\$ 82,086</u>

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>	
			<u>Reserved</u>	<u>Designated</u>
Set-aside cash balance as of June 30, 2003	\$ (36,895)	\$ (540,990)	\$ 9,214	\$ 25,390
Current year set-aside requirement	40,718	40,718	-	-
Qualifying disbursements	<u>(60,176)</u>	<u>(27,227)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (56,353)</u>	<u>\$ (527,499)</u>	<u>\$ 9,214</u>	<u>\$ 25,390</u>
Balance carried forward to FY 2005	<u>\$ (56,353)</u>	<u>\$ (527,499)</u>	<u>\$ 9,214</u>	<u>\$ 25,390</u>

The District had qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 17 - STATUTORY RESERVES - (Continued)

The District issued \$610,000 in bonds in fiscal year 2001 to provide for the renovation of the old school building and construction of the high school addition. This amount is an allowable offset to future years for the capital improvement and maintenance set-aside. The negative amount is therefore presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$58,372 for school bus reserves is in the general fund on the combined balance sheet at June 30, 2004.

A schedule of the general fund restricted assets at June 30, 2004 follows:

Amount restricted for bus purchase allowance	\$ 58,372
Amount restricted for budget stabilization	<u>9,214</u>
Total restricted assets	<u><u>\$ 67,586</u></u>

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Bettsville Local School District
118 Washington Street
Bettsville, Ohio 44815

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bettsville Local School District as of and for the fiscal year ended June 30, 2004, which collectively comprise the Bettsville Local School District’s basic financial statements and have issued our report thereon dated December 6, 2004. As disclosed in Note 3 to the financial statements, the Bettsville Local School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for fiscal year ended June 30, 2004. In addition, capital assets have been restated due to errors and omissions in prior years as noted in Note 9. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bettsville Local School District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 certain matters that we reported to management of Bettsville Local School District, in a separate letter dated December 6, 2004.

Board of Education
Bettsville Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bettsville Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of Bettsville Local School District, Seneca County, and is not intended to be and should not be used by anyone other than these specified parties.



Trimble, Julian & Grube, Inc.
December 6, 2004



**Auditor of State
Betty Montgomery**

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**BETTSVILLE LOCAL SCHOOL DISTRICT
SENECA 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 10, 2005**