

BERNE UNION LOCAL SCHOOL DISTRICT
ANNUAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Mary Taylor, CPA
Auditor of State

Board of Education
Berne Union Local School District
506 North Main Street
Sugar Grove, Ohio 43155

We have reviewed the *Independent Auditors' Report* of the Berne Union Local School District, Fairfield County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period July 1, 2005 through June 30, 2006. 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 Berne Union Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 31, 2007

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**BERNE UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Board of Education
Berne Union Local School District
Sugar Grove, Ohio 43155

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berne Union Local School District, Fairfield County as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, if any, 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 Berne Union Local School District, Fairfield County as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2006, on our consideration of Berne Union Local School District's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to opine of the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards expenditures present additional information and is required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
October 31, 2006

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The discussion and analysis of the Berne Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Berne Union Local School District exceeded its liabilities at June 30, 2006 by \$6,624,537. This balance was comprised of a \$5,613,308 balance in capital assets net of related debt and net asset amounts restricted for specific purposes and a balance of \$1,011,229 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$462,571, which represents a 7.51 percent increase from 2005.
- ▶ General revenues accounted for \$6,572,852 or 76.41 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,029,025 or 23.59 percent of total revenues of \$8,601,877.
- ▶ The District had \$8,139,306 in expenses related to governmental activities; only \$2,029,025 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$6,572,852 were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General Fund and the Bond Retirement Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$7,231,298 in revenues and \$6,647,569 in expenditures in fiscal year 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Berne Union Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting which is 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

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 two major governmental funds are the General Fund and Bond Retirement Fund.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the accrual basis of accounting. The internal service fund is included with governmental activities on the government-wide financial statements.

Fiduciary Funds

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$5,974,260	\$5,372,852
Capital Assets, Net	7,792,753	8,090,469
<i>Total Assets</i>	<u>13,767,013</u>	<u>13,463,321</u>
<u>Liabilities:</u>		
Long-Term Liabilities	3,562,418	3,744,162
Other Liabilities	3,580,058	3,557,193
<i>Total Liabilities</i>	<u>7,142,476</u>	<u>7,301,355</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	4,697,655	4,771,894
Restricted	915,653	810,389
Unrestricted	1,011,229	579,683
<i>Total Net Assets</i>	<u>\$6,624,537</u>	<u>\$6,161,966</u>

Current and other assets increased \$601,408 from fiscal year 2005 due to an increase in the cash of the District. Capital assets decreased by \$297,716 as a result of changes in the District's capitalization policy.

Current (other) liabilities increased by \$22,865 or 0.64 percent.

Long-term liabilities decreased \$181,744 due to scheduled payments made on the District's debt outstanding.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The District's smallest portion of net assets is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

The remaining balance of \$1,011,229 is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2006 and provides a comparison to fiscal year 2005.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<u>Revenues:</u>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$882,444	\$789,712
Operating Grants and Contributions	1,146,581	551,256
<i>General Revenues:</i>		
Property Taxes	2,896,229	2,707,131
Income Taxes	140,911	0
Unrestricted Grants and Entitlements	3,343,370	3,877,655
Investment Earnings	100,024	37,269
Miscellaneous	92,318	55,736
<i>Total Revenues</i>	<u>8,601,877</u>	<u>8,018,759</u>
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	3,423,848	3,193,195
Special	1,008,453	836,989
Vocational	111,658	183,778
Adult/Continuing	3,545	0

(Continued)

BERNE UNION LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2
Changes in Net Assets

	2006	2005
<i>Support Services:</i>		
Pupils	236,132	354,739
Instructional Staff	380,398	450,486
Board of Education	14,030	12,938
Administration	811,080	777,016
Fiscal	250,306	226,188
Business	4,352	3,807
Operation and Maintenance of Plant	635,828	697,708
Pupil Transportation	545,659	580,827
Central	31,392	28,516
<i>Operation of Non-Instructional Services:</i>		
Food Service	273,159	237,873
Other	0	10,000
Extracurricular Activities	234,510	241,389
Interest and Fiscal Charges	174,956	185,195
<i>Total Expenses</i>	8,139,306	8,020,644
<i>Change in Net Assets</i>	462,571	(1,885)
Net Assets – Beginning of Year	6,161,966	6,163,851
Net Assets – End of Year	\$6,624,537	\$6,161,966

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The most significant program expenses for the District are Regular Instruction, Special Instruction, Administration, Operation and Maintenance of Plant and Pupil Transportation. These programs account for 78.93 percent of the total governmental activities. Regular Instruction, which accounts for 42.07 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 12.39 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 9.96 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Operation and Maintenance of Plant, which represents 7.81 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Pupil Transportation, which represents 6.70 percent of the total cost, represents costs associated with providing transportation services for students between home and school, and to school activities.

As noted previously, the net assets for the governmental activities increased \$462,571 or 7.51 percent. This is an increase from last year when net assets decreased \$1,885 or 1.12 percent. Total revenues increased \$583,118 or 7.27 percent from last year and expenses increased \$118,662 or 1.48 percent from last year.

The District had program revenue increases of \$688,057, as well as decreases in general revenues of \$104,939. The increase in program revenues is mostly due to the District receiving additional program grants during fiscal year 2006. There was one significant decrease in general revenues. Unrestricted grants and entitlements decreased \$534,285 or 13.78 percent.

The total expenses for governmental activities increased due to union agreement increases to salaries and benefits.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 72.54 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. The District was facing a potential deficit (dependent upon the State's Biennium Budget for Fiscal Year 2007) in fiscal year 2007 and would have been placed in Fiscal Caution by the Ohio Department of Education. To avoid the potential deficit, in May 2006, the Board of Education placed an income tax levy on the ballot. The voters approved the 1 percent income tax levy.

The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 33.67 percent and intergovernmental revenue made up 52.20 percent of the total revenue for the governmental activities in fiscal year 2006.

BERNE UNION LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

(Unaudited)

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$3,555,053 through the State's foundation program, which represents 41.33 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 55.87 percent of governmental activities program expenses. Support services expenses make up 35.74 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006 and comparison to fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
<i>Program Expenses:</i>				
Instruction	\$4,547,504	\$4,213,962	\$3,405,495	\$3,403,909
Support Services	2,909,177	3,132,225	2,447,125	2,980,333
Operation of Non-Instructional Services	273,159	247,873	(17,887)	(15,556)
Extracurricular Activities	234,510	241,389	100,592	125,795
Interest and Fiscal Charges	174,956	185,195	174,956	185,195
Total Expenses	<u>\$8,139,306</u>	<u>\$8,020,644</u>	<u>\$6,110,281</u>	<u>\$6,679,676</u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$8,656,985 and expenditures of \$8,067,949.

Total governmental funds fund balance increased by \$740,677. The increase in fund balance for the year was most significant in the General Fund, an increase of \$583,729 reflecting revenues received exceeded expenditures for general operations.

Budget Highlights - General Fund

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

During the course of fiscal year 2006, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education. It should be noted that the District, on the cash basis, ended the fiscal year with revenues exceeding expenditures plus encumbrances by \$208,680.

For the General Fund, the final budget basis revenue was \$7,142,947 representing an increase of \$2,951 from the original budget estimates of \$7,139,996. For the General Fund, the final budget basis expenditures were \$7,366,563 representing a decrease of \$49,052 from the original budget expenditures of \$7,415,615.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$12.0 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$4.2 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

BERNE UNION LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2006

	Governmental Activities	
	2006	2005
<i>Nondepreciable Capital Assets:</i>		
Land	\$410,820	\$410,820
<i>Depreciable Capital Assets:</i>		
Land Improvements	554,920	554,920
Buildings and Improvements	9,791,859	9,791,859
Furniture, Fixtures and Equipment	625,624	613,474
Vehicles	630,170	630,170
<i>Total Capital Assets</i>	12,013,393	12,001,243
<i>Less Accumulated Depreciation:</i>		
Land Improvements	268,311	242,161
Buildings and Improvements	3,392,653	3,163,049
Furniture, Fixtures and Equipment	314,205	285,300
Vehicles	245,471	220,264
<i>Total Accumulated Depreciation</i>	4,220,640	3,910,774
<i>Capital Assets, Net</i>	\$7,792,753	\$8,090,469

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2006, the District had \$3,005,000 in general obligation debt outstanding with \$330,000 due within one year. Table 5 summarizes the general obligation bonds outstanding for fiscal year 2006 compared to fiscal year 2005.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2006	2005
General Obligation Bonds	\$0	\$3,315,000
Refunding Bonds	3,005,000	0
Total General Obligation Debt	\$3,005,000	\$3,315,000

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Berne Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

The Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, the Court has in effect decided that they have, barring another lawsuit, completed their responsibility in the case. Ending the high court's involvement has left Ohio with a school funding system that has been determined to be unconstitutional but failed to provide the framework to fix it. At this time there can be no reasonable estimate of the impact on school funding.

The State Legislature has also made several significant changes impacting local taxes:

In 2003, the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2006; after this a phase out formula would begin.

The Berne Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)*

Over the past few years the District has experienced a loss in property parcels due to the construction of the State Route 33 By-Pass and the corresponding land purchases by the State of Ohio. Residential/agricultural property contributes 96.54 percent of the District's real estate valuation.

The District voters approved an income tax levy of 1 percent in May 2005. This levy will generate approximately \$670,000 per year in revenue for general operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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 received. If you have any questions about this report or need additional information contact Gina Roop, Treasurer of Berne Union Local School Board of Education, 506 North Main Street, Sugar Grove, Ohio 43155.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,414,549
Cash and Cash Equivalents with Fiscal Agent	363,880
Property Taxes Receivable	2,993,839
Accounts Receivable	398
Intergovernmental Receivable	11,213
Income Taxes Receivable	105,415
Inventory Held for Resale	3,307
Materials and Supplies Inventory	17,186
Unamortized Bond Issuance Costs	64,473
Nondepreciable Capital Assets	410,820
Depreciable Capital Assets, Net	<u>7,381,933</u>
<i>Total Assets</i>	<u>13,767,013</u>
<u>Liabilities:</u>	
Accounts Payable	52,853
Accrued Wages and Benefits	582,407
Contracts Payable	3,900
Intergovernmental Payable	224,768
Accrued Interest Payable	16,735
Claims Payable	75,008
Deferred Revenue	2,624,387
<i>Long-Term Liabilities:</i>	
Due within One Year	356,426
Due in More Than One Year	<u>3,205,992</u>
<i>Total Liabilities</i>	<u>7,142,476</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,697,655
<i>Restricted for:</i>	
Debt Service	790,920
Other Purposes	124,733
Unrestricted	<u>1,011,229</u>
<i>Total Net Assets</i>	<u><u>\$6,624,537</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues		Net (Expense)	
	Expenses	Charges for Services and Sales	Revenue and Changes in Net Assets	
		Operating Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$3,423,848	\$567,230	\$57,944	(\$2,798,674)
Special	1,008,453	0	491,103	(517,350)
Vocational	111,658	0	25,732	(85,926)
Adult/Continuing	3,545	0	0	(3,545)
<i>Support Services:</i>				
Pupils	236,132	0	0	(236,132)
Instructional Staff	380,398	0	166,805	(213,593)
Board of Education	14,030	0	0	(14,030)
Administration	811,080	0	0	(811,080)
Fiscal	250,306	0	0	(250,306)
Business	4,352	0	0	(4,352)
Operation and Maintenance of Plant	635,828	0	3,588	(632,240)
Pupil Transportation	545,659	19,625	253,707	(272,327)
Central	31,392	0	18,327	(13,065)
<i>Operation of Non-Instructional Services:</i>				
Food Service	273,159	168,636	122,410	17,887
Extracurricular Activities	234,510	126,953	6,965	(100,592)
Interest and Fiscal Charges	174,956	0	0	(174,956)
Totals	\$8,139,306	\$882,444	\$1,146,581	(6,110,281)

General Revenues:

Property Taxes Levied for:

General Purposes	2,498,623
Debt Service	397,606

Income Taxes Levied for:

General Purposes	140,911
Grants and Entitlements not Restricted to Specific Programs	3,343,370
Investment Earnings	100,024
Miscellaneous	92,318

Total General Revenues 6,572,852

Change in Net Assets 462,571

Net Assets at Beginning of Year 6,161,966

Net Assets at End of Year \$6,624,537

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$927,074	\$746,685	\$327,062	\$2,000,821
Property Taxes Receivable	2,528,869	425,295	39,675	2,993,839
Income Taxes Receivable	105,415	0	0	105,415
Accounts Receivable	64	0	334	398
Intergovernmental Receivable	0	0	11,213	11,213
Inventory Held for Resale	0	0	3,307	3,307
Materials and Supplies Inventory	17,186	0	0	17,186
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	142,448	0	0	142,448
Total Assets	\$3,721,056	\$1,171,980	\$381,591	\$5,274,627
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$44,980	\$0	\$7,873	\$52,853
Accrued Wages and Benefits	538,188	0	44,219	582,407
Contracts Payable	0	0	3,900	3,900
Intergovernmental Payable	209,479	0	15,289	224,768
Deferred Revenue	2,334,578	382,620	36,028	2,753,226
Total Liabilities	3,127,225	382,620	107,309	3,617,154
<u>Fund Balances:</u>				
Reserved for Encumbrances	136,698	0	27,775	164,473
Reserved for Property Taxes	194,291	42,675	7,259	244,225
Reserved for Budget Stabilization	100,000	0	0	100,000
Reserved for Textbooks and Instructional Materials	42,448	0	0	42,448
<u>Unreserved, Undesignated, Reported in:</u>				
General Fund	120,394	0	0	120,394
Special Revenue Funds	0	0	239,248	239,248
Debt Service Fund	0	746,685	0	746,685
Total Fund Balances	593,831	789,360	274,282	1,657,473
Total Liabilities and Fund Balances	\$3,721,056	\$1,171,980	\$381,591	\$5,274,627

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Funds Balances	\$1,657,473
 <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.	7,792,753
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:	
Property taxes	128,839
Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds	64,473
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:	
General obligation bonds	(3,005,000)
Capital leases	(2,930)
Accrued interest	(16,735)
Compensated absences	(402,847)
Premium on bonds	<u>(151,641)</u>
Total liabilities that are not reported in the funds	(3,579,153)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>560,152</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$6,624,537</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,495,452	\$417,388	\$38,497	\$2,951,337
Income Tax	140,911	0	0	140,911
Intergovernmental	3,881,257	41,897	536,778	4,459,932
Interest	67,732	29,419	2,873	100,024
Tuition and Fees	575,593	0	11,262	586,855
Extracurricular Activities	40,775	0	86,178	126,953
Gifts and Donations	0	0	30,019	30,019
Customer Sales and Services	0	0	168,636	168,636
Miscellaneous	29,578	0	62,740	92,318
<i>Total Revenues</i>	<u>7,231,298</u>	<u>488,704</u>	<u>936,983</u>	<u>8,656,985</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	2,993,965	0	69,615	3,063,580
Special	801,482	0	187,820	989,302
Vocational	124,093	0	0	124,093
Other	2,026	0	0	2,026
<i>Support Services:</i>				
Pupils	227,611	0	2,993	230,604
Instructional Staff	221,472	0	154,143	375,615
Board of Education	13,726	0	0	13,726
Administration	727,826	0	63,760	791,586
Fiscal	239,248	7,787	5,370	252,405
Business	4,352	0	0	4,352
Operation and Maintenance of Plant	626,889	0	10,695	637,584
Pupil Transportation	508,758	0	0	508,758
Central	19,119	0	10,775	29,894
Operation of Non-Instructional Services	0	0	267,671	267,671
Extracurricular Activities	136,090	0	94,155	230,245
<i>Debt Service:</i>				
Principal Retirement	645	310,000	0	310,645
Interest and Fiscal Charges	267	171,123	0	171,390
Issuance Costs	0	64,473	0	64,473
<i>Total Expenditures</i>	<u>6,647,569</u>	<u>553,383</u>	<u>866,997</u>	<u>8,067,949</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>583,729</u>	<u>(64,679)</u>	<u>69,986</u>	<u>589,036</u>
<u>Other Financing Sources (Uses):</u>				
Refunding Bonds Issued	0	3,040,000	0	3,040,000
Premium on Refunding Bonds Issued	0	151,641	0	151,641
Payment to Refunding Bond Escrow Agent	0	(3,040,000)	0	(3,040,000)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>151,641</u>	<u>0</u>	<u>151,641</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	583,729	86,962	69,986	740,677
<i>Fund Balances at Beginning of Year</i>	<u>10,102</u>	<u>702,398</u>	<u>204,296</u>	<u>916,796</u>
<i>Fund Balances at End of Year</i>	<u>\$593,831</u>	<u>\$789,360</u>	<u>\$274,282</u>	<u>\$1,657,473</u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

*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, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$740,677
 <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 exceeded capital outlay in the current period.	(297,716)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Property taxes	(55,108)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from general obligation bonds, including a premium of \$151,641.	(3,191,641)
Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	3,350,645
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(3,566)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges.	64,473
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Compensated absences	22,740
An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities.	<u>(167,933)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$462,571</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property Taxes	\$2,434,999	\$2,509,831	\$2,509,831	\$0
Income Tax	40,000	38,147	38,147	0
Intergovernmental	3,883,100	3,881,257	3,881,257	0
Interest	35,000	67,830	67,732	(98)
Tuition and Fees	626,000	575,593	575,593	0
Extracurricular Activities	37,800	40,775	40,775	0
Miscellaneous	83,097	29,514	29,514	0
<i>Total Revenues</i>	7,139,996	7,142,947	7,142,849	(98)
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,283,482	3,193,903	3,135,619	58,284
Special	792,824	809,044	779,627	29,417
Vocational	135,032	141,820	135,104	6,716
Other	35,306	36,000	36,000	0
<i>Support Services:</i>				
Pupils	380,707	263,170	253,250	9,920
Instructional Staff	309,426	272,328	231,049	41,279
Board of Education	15,050	20,050	13,726	6,324
Administration	713,428	768,150	744,280	23,870
Fiscal	288,050	268,541	237,364	31,177
Business	4,200	4,527	4,352	175
Operation and Maintenance of Plant	669,328	819,917	675,024	144,893
Pupil Transportation	573,695	565,635	534,055	31,580
Central	16,155	21,841	19,180	2,661
Operation of Non-Instructional Services	7,500	3,634	3,634	0
Extracurricular Activities	191,432	178,003	131,905	46,098
<i>Total Expenditures</i>	7,415,615	7,366,563	6,934,169	432,394
<i>Excess of Revenues Over (Under) Expenditures</i>	(275,619)	(223,616)	208,680	432,296
<i>Fund Balance at Beginning of Year</i>	686,226	686,226	686,226	0
<i>Prior Year Encumbrances Appropriated</i>	77,895	77,895	77,895	0
<i>Fund Balance at End of Year</i>	<u>\$488,502</u>	<u>\$540,505</u>	<u>\$972,801</u>	<u>\$432,296</u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$271,280
Cash and Cash Equivalents with Fiscal Agent	<u>363,880</u>
<i>Total Assets</i>	<u>635,160</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>75,008</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$560,152</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

*Statement of Revenues,
Expenses and Change in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006*

	<u>Governmental Activities</u> <u>Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$716,111</u>
<u>Operating Expenses:</u>	
Purchased Services	91,375
Claims	<u>792,669</u>
<i>Total Operating Expenses</i>	<u>884,044</u>
<i>Change in Net Assets</i>	(167,933)
<i>Net Assets at Beginning of Year</i>	<u>728,085</u>
<i>Net Assets at End of Year</i>	<u><u>\$560,152</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$716,111
Cash Payments for Goods and Services	(91,375)
Cash Payments for Claims	<u>(616,099)</u>
<i>Net Cash from Operating Activities</i>	<u>8,637</u>
<i>Net Increase in Cash and Cash Equivalents</i>	8,637
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>626,523</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$635,160</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	(\$167,933)
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>Decrease in Assets:</i>	
Accounts Receivable	136,923
<i>Increase in Liabilities:</i>	
Claims Payable	<u>39,647</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$8,637</u></u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$26,514</u>
<u>Liabilities:</u>	
Due to Students	<u>\$26,514</u>

See accompanying notes to the basic financial statements and accountant's report.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Berne Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. It is staffed by 31 non-certificated employees, 62 certificated full-time teaching personnel and 4 administrative employees who provide services to 1,005 students and other community members.

Reporting Entity

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

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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 budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with two jointly governed organizations: the Metropolitan Education Council (MEC) and the South Central Ohio Insurance Consortium (SCOIC). The District is also associated with one insurance purchasing pool: Ohio School Boards Association Worker's Compensation Group Rating Program. These organizations are presented in Notes 19 and 20 to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. 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- This fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health and dental benefits to employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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 only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Fund Financial Statements

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 balance 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.

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 and the financial statements of the proprietary fund and fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 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.

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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, 2006, but which were levied to finance fiscal year 2007 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 measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

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

During the fiscal year 2006 the District's investments were limited to repurchase agreements and the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$67,732, which includes \$34,532 assigned from other District funds.

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 presented on the financial statements as cash equivalents.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used, consumed or sold.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, and purchased food and donated food held for resale. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed, used or sold.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Restricted Assets

Assets are reported as restricted 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 in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for budget stabilization. See note 17 for additional information regarding set-asides.

I. Capital Assets

General capital assets are associated with and generally arise from governmental activities. 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 deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for governmental activities:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	50 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	9 - 30 years
Vehicles	25 years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 10 years of service with the District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

K. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities 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 judgements, compensated absences, special termination of benefits and contractually required pension contributions 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 in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

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. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and set-asides.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for set-asides represents money set-aside by statute for budget stabilization, which protects against cyclical changes in revenues and expenditures.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

O. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one 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 to the funds that initially paid for them are not presented on the financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

P. Estimates

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

Q. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

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

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of GASB Statement No. 46 or 47 had no effect on the disclosure requirements or the prior period fund balances of the District.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 4 - ACCOUNTABILITY

Accountability

The following funds had a deficit fund balance as of June 30, 2006:

	<u>Deficit Fund Balance</u>
<i>Nonmajor Special Revenue Funds:</i>	
Mentor	\$138
Title I	7,924
Improving Teacher Quality	739

The deficit in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$583,729
<i>Adjustments:</i>	
Revenue Accruals	(88,449)
Expenditure Accruals	(383,321)
Encumbrances	96,721
Budget Basis	<u><u>\$208,680</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify 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 that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value 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;

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40 "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2006, the carrying amount of all District deposits was \$727,881, exclusive of the \$118,806 overnight repurchase agreement included as an investment below. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$509,075 of the District's bank balance of \$609,075 was exposed to custodial risk as discussed above while \$100,000 was covered by Federal Deposit Insurance. The \$509,075 exposed to custodial risk was collateralized with securities held by the District or its agency in the District's name.

Investments: As of June 30, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	6 Months or Less
Repurchase Agreements	\$118,806	\$118,806
STAROhio	2,321,484	2,321,484
Totals	<u>\$2,440,290</u>	<u>\$2,440,290</u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

Reserve Repurchase Agreements: State statutes permit the District to enter into reverse repurchase agreements. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, District policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. Such matching existed at year-end.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard and Poor's has assigned STAROhio an "AAAm" money market rating.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the District or not.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,168,171	\$0
<i>Investments:</i>		
Repurchase Agreements	(118,806)	118,806
STAROhio	(2,321,484)	2,321,484
GASB Statement No. 3	<u>\$727,881</u>	<u>\$2,440,290</u>

NOTE 7 - PROPERTY TAXES

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

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES - (Continued)

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

The District receives property taxes from Fairfield and Hocking Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the June 2006 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2006 was \$244,225 and is recognized as revenue. Of this total amount, \$194,291 was available to the General Fund, \$42,675 was available to the Bond Retirement Fund and \$7,259 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$81,075,500	76.08%	\$79,490,500	76.40%
Public Utility Personal	21,938,441	20.59%	21,982,900	21.13%
Tangible Personal Property	3,545,955	3.33%	2,568,179	2.47%
Total Assessed Value	<u>\$106,559,896</u>	<u>100.00%</u>	<u>\$104,041,579</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.80		\$48.80	

NOTE 8- INCOME TAX

The District levies a voted tax of 1.00 percent for general operations on the income of residents. The tax became effective on January 1, 2006, and continues for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue of \$140,911 is credited to the General Fund for fiscal year 2006.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - RECEIVABLES

Receivables at June 30, 2006 consisted of property taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:

Nonmajor Special Revenue Fund:

Food Service \$11,213

NOTE 10 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2005</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2006</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$410,820	\$0	\$0	\$410,820
<i>Depreciable Capital Assets:</i>				
Land Improvements	554,920	0	0	554,920
Buildings and Improvements	9,791,859	0	0	9,791,859
Furniture, Fixtures and Equipment	613,474	12,150	0	625,624
Vehicles	630,170	0	0	630,170
Total Depreciable Capital Assets	11,590,423	12,150	0	11,602,573
Total Capital Assets	12,001,243	12,150	0	12,013,393
<i>Accumulated Depreciation:</i>				
Land Improvements	(242,161)	(26,150)	0	(268,311)
Buildings and Improvements	(3,163,049)	(229,604)	0	(3,392,653)
Furniture, Fixtures and Equipment	(285,300)	(28,905)	0	(314,205)
Vehicles	(220,264)	(25,207)	0	(245,471)
Total Accumulated Depreciation	(3,910,774)	(309,866)	0	(4,220,640)
Total Net Capital Assets	<u>\$8,090,469</u>	<u>(\$297,716)</u>	<u>\$0</u>	<u>\$7,792,753</u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$267,343
Vocational	855
<i>Support Services:</i>	
Instructional Staff	115
Administration	1,986
Fiscal	251
Operation and Maintenance of Plant	1,524
Pupil Transportation	26,939
Central	1,498
Operation of Non-Instructional Services	5,488
Extracurricular Activities	3,867
	<hr/>
Total Depreciation Expense	<u><u>\$309,866</u></u>

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with various commercial carriers for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

Building/Contents and Boiler/Machinery	
Building/Contents - replacement cost (100% co-insurance)	\$28,122,800
Automobile Liability (\$500 deductible for collision and \$250 for comprehensive)	1,000,000
General Liability:	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000

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

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

For fiscal year 2006, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's 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 Plan. Each participant pays its worker's compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

The District was self funded with the South Central Ohio Insurance Consortium effective January 1, 1996.

The District joined four other school districts January 1, 1996, to form a regional council of governments in accordance with Ohio Revised Code Chapter 167 and entered into an Agreement Establishing the South Central Ohio Insurance Consortium for the purpose of carrying out a joint self-insurance program pursuant to Section 9.833 of the Ohio Revised Code, in an effort to minimize risk exposure and control claims and premium costs. EV Benefits is the third party administrator for the consortium, with Safeco Life Insurance Company as the excess loss carrier. The individual excess loss coverage is \$50,000 individual deductible per person with a \$3,000,000 maximum lifetime reimbursement per person.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund and the Self Insurance Fund of the District from the Internal Service Fund. The cash balance with the fiscal agent at June 30, 2006, was \$363,880. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium. Liabilities at June 30, 2006, are reported at their present value of \$75,008.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

The claims liability of \$75,008 supported at June 30, 2006 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$68	\$477,104	\$441,811	\$35,361
2006	35,361	792,669	753,022	75,008

NOTE 12 - DEFINED BENEFIT PENSION PLANS

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 State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent 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 2006, 10.57 percent of the 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 statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$71,216 , \$144,377, and \$111,756, respectively; 14.15 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$61,141 representing the unpaid contribution for fiscal year 2006, is recorded as a liability on the statement of net assets.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 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 percent 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.

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 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$437,914, \$553,118, and \$484,908, respectively; 75.18 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$108,671 representing the unpaid contribution for fiscal year 2006, is recorded as a liability on the statement of net assets.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, five members of the Board of Education have elected Social Security.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$33,686 during fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available.) For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants currently receiving health care benefits is approximately 58,123. For the District, the amount to fund health care benefits, including the surcharge, equaled \$37,204 during the 2006 fiscal year.

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 14 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 235 days for aides and all other classified employees and for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 55 days for all employees.

NOTE 15 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2006 were as follows:

	Issue Date	Interest Rate	Principal Outstanding at July 1, 2005	Additions	Deductions	Principal Outstanding at June 30, 2006	Amount Due In One Year
<i>Governmental Activities:</i>							
General Obligation Bonds Payable	1993	4.90%	\$3,315,000	\$0	\$3,315,000	\$0	\$0
Refunding Bonds	2005	3.50%	0	3,040,000	35,000	3,005,000	330,000
Premium on Refunding Bonds			0	151,641	0	151,641	16,849
Compensated Absences Payable			425,587	116,193	138,933	402,847	8,932
Capital Lease Payable			3,575	0	645	2,930	645
Total Governmental Activities Long-Term Obligations			<u>\$3,744,162</u>	<u>\$3,307,834</u>	<u>\$3,489,578</u>	<u>\$3,562,418</u>	<u>\$356,426</u>

The general obligation bonds relate to a project for which bonds were issued in 1993 for the purpose of constructing and reconstructing the District's K-12 building and for improving the site. The bonds mature December 2014, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Ohio Revised Code and Section 133.09 thereof. These bonds were repaid during fiscal year 2006 from the proceeds of refunding bonds issued.

Refunding General Obligation Bonds - During fiscal year 2006, the District issued \$3,040,000 of general obligation bonds for the current refunding of \$3,040,000 of the 1993 series bonds. The \$151,641 premium on the issuance of the refunding bonds is netted against this new debt and will be amortized over the life of this new debt, which has the same remaining life of the refunded debt of 9 years. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$256,554 and a reduction of \$199,786 in future debt service payments. The refunding bonds are retired through the Bond Retirement Fund using tax revenues.

On November 8, 1994, the voters of the District passed a .5 mill levy to qualify for State Building Assistance Funds. The District received a \$6,120,000 loan from the State of Ohio for the construction and reconstruction of classroom facilities.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 15 - LONG-TERM LIABILITIES - (Continued)

Pursuant to changes that became effective on September 14, 2000, Section 3318.05 of the Ohio Revised Code was amended eliminating the requirement that certain school districts receiving state classroom facilities assistance repay one-half of the required twenty-three year one-half mill levy. From that date forward any school district that had previously been required to make repayment has been directed to cease making the payments to the Ohio School Facilities Commission and to instead deposit one hundred percent of the proceeds in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund designated by the Auditor of State.

Compensated absences will be paid from the fund from which the employee is paid. The capital lease payable will be paid from the General Fund.

The District's overall legal debt margin was \$6,358,742 with an unvoted debt margin of \$104,042 at June 30, 2006.

The annual requirements to retire the general obligation bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$330,000	\$99,425	\$429,425
2008	345,000	89,300	434,300
2009	360,000	77,825	437,825
2010	260,000	191,525	451,525
2011	385,000	64,788	449,788
2012-2015	1,325,000	103,575	1,428,575
Total Debt	<u>3,005,000</u>	<u>626,438</u>	<u>3,631,438</u>

NOTE 16 - CAPITAL LEASE

The \$2,930 of outstanding capital lease payable relates to the lease/purchase of a mailing system during fiscal year 2006. The lease, dated December 4, 2005, in the amount of \$4,080 will be paid over five fiscal years. The final payment will be made in December, 2010.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 - CAPITAL LEASE - (Continued)

The following is a schedule of the future minimum lease payment required under the capital lease and the present value of the minimum lease payment as of June 30, 2006:

Fiscal Year Ending June 30,	Capital Lease Payments
2007	\$912
2008	912
2009	912
2010	912
Total Future Minimum Lease Payment	3,648
Amount Representing Interest	(718)
Present Value of Future Minimum Lease Payment	<u>\$2,930</u>

NOTE 17 - STATUTORY SET-ASIDES

The District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set aside money for budget stabilization. Senate Bill 345 eliminated the Budget Stabilization Reserve except for amounts related to unspent Bureau of Worker's Compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve.

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

	Textbooks	Capital Acquisition	Budget Stabilization	Total
Set-Aside Reserve Balance as of June 30, 2005	\$0	\$0	\$100,000	\$100,030
Current Year Set-Aside Requirement	146,068	146,068	0	292,136
Qualifying Disbursements	(103,620)	(229,615)	0	(333,235)
Totals	<u>\$42,448</u>	<u>(\$83,547)</u>	<u>\$100,000</u>	<u>\$58,901</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$42,448</u>	<u>\$0</u>	<u>\$100,000</u>	<u>\$142,448</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$42,448</u>	<u>\$0</u>	<u>\$100,000</u>	<u>\$142,448</u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 17 - STATUTORY SET-ASIDES - (Continued)

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital acquisition set-aside amounts below zero. Current year offsets and qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements of future years. Actual cash balances in excess of set-aside requirements for capital acquisitions may be used to offset set-aside requirements of future years if monies are obtained from a permanent improvement levy.

NOTE 18 - OPERATING LEASES

The District leases copiers under operating leases expiring in various years. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2006, for each of the next three years and in the aggregate are:

Fiscal Year Ending June 30,	Amount
2007	\$27,864
2008	25,557
2009	22,174
Total	<u>\$75,595</u>

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

Metropolitan Education Council is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

South Central Ohio Insurance Consortium (SCOIC)

South Central Ohio Insurance Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 20 - INSURANCE PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Program

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

NOTE 21 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

NOTE 22 - 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 on its financial operations.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Berne Union Local School District
Sugar Grove, Ohio 43155

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berne Union Local School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 2006. 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 Berne Union Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berne Union 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 that we must report under *Government Auditing Standard*.

This report is intended for the information of the District's Board of Education, management, Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
October 31, 2006

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Berne Union Local School District
Sugar Grove, Ohio 43155

Compliance

We have audited the compliance of Berne Union Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Berne Union Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Berne Union Local School District management. Our responsibility is to express an opinion on Berne Union Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Berne Union Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Berne Union Local School District's compliance with those requirements.

In our opinion, the Berne Union Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Berne Union Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Berne Union Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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This report is intended for the information of the Board of Education, management, the Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
October 31, 2006

**BERNE UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505**

1. Summary of Auditor's Results

(d)(1)(I)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	Nutrition Cluster; CFDA #10.553 Special Ed. Cluster, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs:	Type A: >\$300,000; Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

NONE

3. Findings and Questioned Costs for Federal Awards

NONE

**BERNE UNION LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE:						
Pass through Ohio Department of Education						
Nutrition Cluster						
National School Lunch Program	n/a	10.555	\$ 85,971	\$ -	\$ 85,971	\$ -
Total Nutrition Cluster			85,971	-	85,971	-
Food Distribution Program	n/a	10.550	-	75,843	-	75,843
Total U.S. Department of Agriculture			85,971	75,843	85,971	75,843
U.S. DEPARTMENT OF EDUCATION:						
Pass through Ohio Department of Education						
Title I Educationally Deprived Children	046854CISI2005 046854CISI2006	84.010	-	-	26,075	-
			122,349	-	106,828	-
			122,349	-	132,903	-
Special Education Cluster:						
Title VI-B Special Education Assistance for Handicapped Children	0468546BSF05P 0453516BSF06P	84.027	-	-	23,556	-
			221,689	-	180,616	-
			221,689	-	204,172	-
Drug Free Schools Grant	046854DRS12006	84.186	4,508	-	4,508	-
			4,508	-	4,508	-
Innovative Education Program Strategies	046854C2S12005 046854C2S12006	84.298	-	-	4,529	-
			2,996	-	2,415	-
			2,996	-	6,944	-
Education Technology State Grants	046854TJS12006	84.318	2,218	-	2,218	-
			2,218	-	2,218	-
Improving Teacher Quality State Grants	046854TRS12005 046854TRS12006	84.367	-	-	9,658	-
			44,871	-	37,724	-
			44,871	-	47,382	-
Total U.S. Department of Education			398,631	-	398,127	-
Total Federal Awards Expenditures			<u>\$ 484,602</u>	<u>\$ 75,843</u>	<u>\$ 484,098</u>	<u>\$ 75,843</u>

See notes to Schedule of Federal Awards Expenditures.

**BERNE UNION LOCAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTES B – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Mary Taylor, CPA
Auditor of State

BERNE UNION LOCAL SCHOOL DISTRICT
FAIRFIELD 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 13, 2007