

**BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

REGULAR AUDIT

JUNE 30, 2005



Mary Taylor, CPA
Auditor of State

Board of Education
Bethel Local School District
7490 South State Route 201
Tipp City, Ohio 45372

We have reviewed the *Independent Accountants' Report* of the Bethel Local School District, Miami County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2004 through June 30, 2005. 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 Bethel Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 26, 2007

This Page is Intentionally Left Blank.

**BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants’ Report	1-2
Managements Discussion and Analysis.....	3-10
Government-Wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund	17
Statement Of Fiduciary Net Assets – Fiduciary Funds.....	18
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund	19
Notes to the Financial Statements.....	20-42
Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43-44
Schedule of Prior Audit Findings	45

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

INDEPENDENT ACCOUNTANTS' REPORT

February 15, 2007

Bethel Local School District
Miami County
7490 South State Route 201
Tipp City, Ohio 45371

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Bethel Local School District, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Bethel Local School District
Miami County
Independent Accountants' Report
Page 2

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

Overall:

- Total net assets increased \$.7 million, which represents a 16.8 percent increase from fiscal year 2004. Increase is due primarily to the District receiving more grants which were used to operate special education programs.
- General revenues accounted for \$6.9 million or 85 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$1.2 million or 15 percent of total revenues of \$8.1 million.
- Of the School District's \$7.3 million in expenses, only \$1.2 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$6.1 million.
- The General Fund and Permanent Improvement Fund, the only major funds, had \$6.6 million and \$.5 million in revenues, respectively, and \$6.1 million and \$.2 million in expenditures, respectively, representing 89 percent of the total governmental funds revenues and 88 percent of governmental funds expenditures. The General Fund's balance increased \$.5 million and the Permanent Fund's balance increased \$.2 million over fiscal year 2004.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bethel 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.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's General Fund and Permanent Improvement Fund, the only major funds, begins on page 12. Fund financial reports provide detailed information about the General Fund and Permanent Improvement Fund. The School District uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the School District's most significant funds, and therefore only the General Fund and Permanent Improvement Fund are presented separate from the other governmental funds.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Governmental Funds

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

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

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

TABLE 1
NET ASSETS (in 000's)

	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	\$ 6,924	\$ 6,041
Capital Assets	<u>3,298</u>	<u>3,419</u>
Total Assets	<u>10,222</u>	<u>9,460</u>
Liabilities		
Long-term Liabilities	1,349	1,296
Other Liabilities	<u>3,790</u>	<u>3,815</u>
Total Liabilities	<u>5,139</u>	<u>5,111</u>
Net Assets		
Invested in Capital Assets, Net of Debt	2,323	2,427
Restricted	979	729
Unrestricted	<u>1,781</u>	<u>1,193</u>
Total Net Assets	<u>\$ 5,083</u>	<u>\$ 4,349</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2005, the School District's net assets were \$5.0 million. Of that amount, approximately \$2.3 million was invested in capital assets, net of debt related to those assets. Another \$1.0 million was subject to external restrictions upon its use. The remaining \$1.7 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

TABLE 2
CHANGE IN NET ASSETS (in 000's)

	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 791	\$ 684
Operating Grants and Contributions	333	269
Capital Grants and Contributions	60	55
General Revenues:		
Property Taxes	3,526	3,347
Grants and Entitlements	3,176	3,224
Other	178	98
Total Revenues	<u>8,064</u>	<u>7,677</u>
Program Expenses		
Instruction	3,742	3,483
Support Services:		
Pupils and Instructional Staff	468	411
Board of Education, Administration, Fiscal and Business	925	928
Plant Operation and Maintenance	537	538
Pupil Transportation	655	617
Central	143	123
Operation of Non-Instructional Services	408	351
Extracurricular Activities	373	289
Unallocated Depreciation	32	34
Interest and Fiscal Charges	48	32
Total Expenses	<u>7,331</u>	<u>6,806</u>
Increase in Net Assets	<u>\$ 733</u>	<u>\$ 871</u>

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 44 percent of revenues for governmental activities for the Bethel Local School District for fiscal year 2005. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 44 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2005.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Instruction comprises 51 percent of the School District's expenses for fiscal year 2005. Support services expenses make up 37 percent of the expenses.

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

TABLE 3
TOTAL AND COST OF PROGRAM SERVICES
(in 000's)

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	3,742	\$ (3,254)	\$ 3,483	\$ (3,066)
Support Services:				
Pupils and Instructional Staff	468	(368)	411	(347)
Board of Education, Administration, Fiscal and Business	925	(925)	928	(928)
Plant Operation and Maintenance	537	(534)	538	(527)
Pupil Transportation	655	(602)	617	(608)
Central	143	(129)	123	(109)
Operation of Non-Instructional Services	408	(54)	351	12
Extracurricular Activities	373	(201)	289	(159)
Unallocated Depreciation	32	(32)	34	(34)
Interest and Fiscal Charges	48	(48)	32	(32)
Total Expenses	<u>\$ 7,331</u>	<u>\$ (6,147)</u>	<u>\$ 6,806</u>	<u>\$ (5,798)</u>

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

Plant operation and maintenance activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, as well as services

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

provided to the community at-large.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Unallocated depreciation represents current period depreciation charges associated with capital assets that are utilized by several different functions, typically school buildings throughout the District.

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the School District.

The School District's Funds

Information about the School District's General Fund and Permanent Improvement Fund, the only major funds, starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7.9 million and expenditures of \$7.1 million. The net change in fund balance was most significant in the General Fund, an increase of \$.5 million. Unreserved fund balance went from \$1.0 million in 2004 to \$1.5 million in 2005.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District amended its general fund budget several times, none significant. Budgetary adjustments were required due to unanticipated revenues from federal grants. Other revenue and expenditure line items were also reviewed.

For the General Fund, budget basis revenue was \$ 5.9 million as compared to the original budget estimates of \$5.3 million. This difference included intergovernmental revenues initially budgeted at \$2.7 million with budget basis revenues coming in at \$3.1 million and tuition and fees revenue initially budgeted at \$.1 million with budget basis revenues coming in at \$.2 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$5.7 million, \$.3 million below revenues, as well as and \$.1 million above original budget estimates and \$.2 million below revised budget estimates.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 (Unaudited)

Capital Assets

At the end of fiscal year 2005, the School District had \$3.3 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2005 balances compared to 2004:

TABLE 4
CAPITAL ASSETS AT JUNE 30 (in 000's)

	<u>2005</u>	<u>2004</u>
Land and Improvements	\$ 1,165	\$ 1,165
Construction in Progress	347	337
Building and Improvements	2,609	2,594
Equipment	1,897	1,871
Vehicles	696	696
Less: Accumulated Depreciation	<u>(3,416)</u>	<u>(3,244)</u>
Total	<u>\$ 3,298</u>	<u>\$ 3,419</u>

Overall capital assets decreased approximately \$121,000 from fiscal year 2004. The decrease is primarily due to depreciation expense exceeding capital asset acquisitions.

For fiscal year 2000 and forward, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2005, this amounts to \$132,411 for each set aside requirement. When fiscal year 2005 qualifying disbursements for the capital improvements and textbooks were netted against the cumulative set aside amounts for the year, no set aside for capital improvements or textbooks remained.

Capital asset acquisitions during fiscal year 2005 consisted primarily of computer equipment in an amount of \$74,858. See Note 9 to the basic financial statements for additional information

Debt Administration

At June 30, 2005, the School District had a 30 year capital lease balance outstanding of \$976,000. The capital lease was used in fiscal year 2004 to purchase 132 acres of land adjacent to the school district's property. At June 30, 2005 the School District's overall legal debt margin was \$10.2 million with an unvoted debt margin of \$.1 million. See Note 14 to the basic financial statements for additional information.

BETHEL LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

For the Future

In May 2002, a group of Bethel Schools staff and community members began meeting to assess the school building issues of Bethel Schools. Their findings focused on a long-term solution not a short-term fix. The districts awareness of overcrowding was being experienced by enrollment growth, increases in technology and certain mandates. Older buildings were deficient in meeting ADA standards.

In the summer of 2003, 132 acres of land located adjacent to the existing campus became available for sale. The district purchased this land in the winter of 2004. In the spring of 2004, community meetings were held to review with the citizens of Bethel Township core focus group's findings and to receive feedback on what should be our community's course of action. Over 70% of the people who completed a survey distributed during the meetings recommended Bethel Schools build a new high school. In November 2004 the district placed on the ballot a \$15.9 million issue to construct a new 82,000 square foot high school, grades 9 –12. This issue failed by a 57% margin. In May 2005 the district made it's second attempted to pass this same issue. The bond issue failed by a 59% margin. The district will make it's third attempt to pass this bond issue at the November 2005 ballot. As construction costs continue to climb the cost to build this same building is \$16.8 million. In November 2004 the residents did however approve the renewal of a 7 mill operating levy by a 61% margin. The districts 2 mill Permanent Improvement Levy was renewed in the November 2003 elections.

Bethel Local Schools are dependent on Real Estate Taxes as well as the State Foundation. The mix in receipts is around 59% Local and 41% State. With the passage of HB66, Bethel is one of four Miami County Schools that will receive no increase in State Funding for FY2006 and FY2007. As a result, the district continues to monitor it's spending patterns very closely and has curtailed spending in areas, which hopefully will not affect the quality of education that Bethel students are currently receiving.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Karen Newman, Treasurer, at (937)845-9414

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,175,040
Receivables:	
Property and Other Taxes	3,560,495
Accounts	1,352
Intergovernmental	57,276
Inventory of Supplies and Materials	11,136
Inventory Held for Resale	5,771
Prepaid Items	78,982
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	33,271
Non-Depreciable Capital Assets	1,165,600
Depreciable Capital Assets, Net	2,133,278
Total Assets	10,222,201
Liabilities:	
Accounts Payable	21,359
Accrued Wages and Benefits Payable	437,321
Intergovernmental Payable	227,672
Deferred Revenue	3,103,784
Long Term Liabilities:	
Due Within One Year	20,000
Due in More Than One Year	1,329,516
Total Liabilities	5,139,652
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,322,878
Restricted for:	
Debt Service	616
Capital Projects	881,202
Other Purpose	96,553
Unrestricted	1,781,300
Total Net Assets	\$ 5,082,549

See accompanying notes to the basic financial statements.

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services & sales</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 2,883,120	\$ 330,775	\$ 55,855	\$ 7,665	\$ (2,488,825)
Special	739,403	-	94,681	-	(644,722)
Other	119,632	-	-	-	(119,632)
Support Services:					
Pupils	266,941	-	94,827	-	(172,114)
Instructional Staff	200,975	-	4,853	-	(196,122)
Board of education	26,084	-	-	-	(26,084)
Administration	589,848	-	1,033	-	(588,815)
Fiscal	252,576	-	-	-	(252,576)
Business	56,696	-	-	-	(56,696)
Operation and Maintenance of Plant	537,070	-	3,481	-	(533,589)
Pupil Transportation	654,650	-	-	52,164	(602,486)
Central	143,254	-	14,000	-	(129,254)
Operation of Non-Instructional Services	407,861	288,956	64,441	-	(54,464)
Extracurricular Activities	372,509	171,868	-	-	(200,641)
Interest and Fiscal Charges	48,402	-	-	-	(48,402)
Unallocated Depreciation *	32,483	-	-	-	(32,483)
Total Governmental Activities	<u>\$ 7,331,504</u>	<u>\$ 791,599</u>	<u>\$ 333,171</u>	<u>\$ 59,829</u>	<u>(6,146,905)</u>

General Revenues:

Property Taxes Levied for General Purposes	3,109,271
Property Taxes Levied for Capital Improvements	416,979
Grants and Entitlements Not Restricted to Specific Programs	3,176,281
Investment Earnings	84,143
Miscellaneous	<u>93,593</u>

Total General Revenues 6,880,267

Changes in Net Assets 733,362

Net Assets at Beginning of Year - Restated 4,349,187

Net Assets at End of Year \$ 5,082,549

* - This amount excludes the depreciation that is included in the direct expense of the various functions.

See accompanying notes to the basic financial statements.

BETHEL LOCAL SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,142,693	\$ 841,299	\$ 191,048	\$ 3,175,040
<u>Receivables:</u>				
Taxes	3,149,701	410,794	-	3,560,495
Accounts	1,350	-	-	1,350
Intergovernmental	-	-	57,276	57,276
Prepaid Items	78,982	-	-	78,982
Inventory of Supplies and Materials	10,145	-	991	11,136
Inventory Held for Resale	-	-	5,771	5,771
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	33,271	-	-	33,271
Total Assets	\$ 5,416,142	\$ 1,252,093	\$ 255,086	\$ 6,923,321
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 11,328	\$ 6,450	\$ 3,581	\$ 21,359
Accrued Wages and Benefits	422,495	-	14,826	437,321
Intergovernmental Payable	151,340	-	33,904	185,244
Deferred Revenue	2,925,871	380,415	48,997	3,355,283
Total Liabilities	3,511,034	386,865	101,308	3,999,207
<u>Fund Balances:</u>				
<u>Reserved for:</u>				
Encumbrances	91,831	318,464	23,851	434,146
Supplies Inventory	10,145	-	6,762	16,907
Property Taxes	223,830	30,379	-	254,209
Budget Stabilization	33,271	-	-	33,271
<u>Unreserved, Undesignated:</u>				
General Fund	1,546,031	-	-	1,546,031
Special Revenue Funds	-	-	122,549	122,549
Capital Projects Funds	-	516,385	-	516,385
Debt Service Funds	-	-	616	616
Total Fund Balances	1,905,108	865,228	153,778	2,924,114
Total Liabilities and Fund Balances	\$ 5,416,142	\$ 1,252,093	\$ 255,086	\$ 6,923,321

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total Governmental Fund Balances:		\$	2,924,114
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,298,878
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.			251,501
Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.			
Intergovernmental payable	(42,428)		
Compensated absences	(373,516)		
Capital leases payable	(976,000)		
Total			<u>(1,391,944)</u>
Net Assets of Governmental Activities		\$	<u><u>5,082,549</u></u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,994,197	\$ 409,902	\$ -	\$ 3,404,099
Intergovernmental	3,176,281	52,164	295,934	3,524,379
Interest	83,717	-	426	84,143
Tuition and Fees	330,775	-	112,028	442,803
Charges for Services	-	-	176,928	176,928
Gifts and Donations	-	-	-	-
Extracurricular Activities	-	-	171,868	171,868
Miscellaneous	11,110	-	82,483	93,593
Total Revenues	6,596,080	462,066	839,667	7,897,813
Expenditures:				
Current:				
Instruction:				
Regular	2,699,708	1,923	59,404	2,761,035
Special	655,108	-	84,150	739,258
Other Instruction	119,632	-	-	119,632
Support Services:				
Pupils	126,308	-	124,879	251,187
Instructional Staff	172,292	-	14,587	186,879
Board of Education	26,084	-	-	26,084
Administration	582,262	1,420	1,033	584,715
Fiscal	242,708	6,890	-	249,598
Business	54,657	-	164	54,821
Plant Operation and Maintenance	481,201	57,386	2,573	541,160
Pupil Transportation	562,522	40,072	-	602,594
Central	121,037	-	20,553	141,590
Non-Instructional Services	-	108,085	356,686	464,771
Extracurricular Activities	178,835	-	187,857	366,692
Debt Service:				
Principal Retirement	16,000	-	-	16,000
Interest and Fiscal Charges	48,402	-	-	48,402
Total Expenditures	6,086,756	215,776	851,886	7,154,418
Excess of Revenues Over(Under)				
Expenditures	509,324	246,290	(12,219)	743,395
Other Financing Sources (Uses):				
Transfers-In	-	-	5,342	5,342
Transfers-Out	(5,342)	-	-	(5,342)
Total Other Financing Sources (Uses)	(5,342)	-	5,342	-
Change in Fund Balance	503,982	246,290	(6,877)	743,395
Fund Balance at Beginning of Year	1,401,126	618,938	160,655	2,180,719
Fund Balance at End of Year	\$ 1,905,108	\$ 865,228	\$ 153,778	\$ 2,924,114

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds		743,395
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Capital asset additions	99,457	
Current year depreciation	<u>(213,210)</u>	
Total		(113,753)
Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each sale:		
Loss on Assets Sold		(7,285)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		167,053
Repayment of long-term obligations is reported as an expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets.		
Capital Lease		16,000
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Intergovernmental payable	(2,490)	
Compensated absences payable	<u>(69,558)</u>	
Total		<u>(72,048)</u>
Change in Net Assets of Governmental Activities		<u><u>733,362</u></u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues:				
Taxes	\$ 2,362,307	\$ 2,362,307	\$ 2,469,319	\$ 107,012
Intergovernmental	2,776,781	2,776,781	3,077,559	300,778
Interest	16,000	16,000	83,717	67,717
Tuition and Fees	151,888	151,888	273,388	121,500
Transportation	30,000	30,000	57,704	27,704
Miscellaneous	<u>10,100</u>	<u>10,100</u>	<u>11,110</u>	<u>1,010</u>
Total Revenues	<u>5,347,076</u>	<u>5,347,076</u>	<u>5,972,797</u>	<u>625,721</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,778,644	2,778,644	2,720,575	58,069
Special	562,792	649,792	664,572	(14,780)
Other Instruction	126,572	126,572	120,556	6,016
Support Services:				
Pupils	135,394	135,394	128,172	7,222
Instructional Staff	178,918	184,418	170,609	13,809
Board of Education	47,813	47,813	29,232	18,581
Administration	627,071	627,071	602,220	24,851
Fiscal	248,753	248,753	266,327	(17,574)
Business	48,732	48,732	53,706	(4,974)
Plant Operation and Maintenance	206,543	206,543	146,511	60,032
Pupil Transportation	410,827	410,827	395,562	15,265
Central	38,194	138,194	121,400	16,794
Non-Instructional Services	9,861	79,861	64,473	15,388
Extracurricular Activities	<u>141,740</u>	<u>171,740</u>	<u>178,772</u>	<u>(7,032)</u>
Total Expenditures	<u>5,561,854</u>	<u>5,854,354</u>	<u>5,662,687</u>	<u>191,667</u>
Excess of Revenues Over(Under) Expenditures	<u>(214,778)</u>	<u>(507,278)</u>	<u>310,110</u>	<u>817,388</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	3,400	3,400	35,584	32,184
Transfers-In	-	-	14,000	14,000
Transfers-Out	<u>-</u>	<u>-</u>	<u>(19,342)</u>	<u>(19,342)</u>
Total Other Financing Sources (Uses)	<u>3,400</u>	<u>3,400</u>	<u>30,242</u>	<u>26,842</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	<u>(211,378)</u>	<u>(503,878)</u>	<u>340,352</u>	<u>844,230</u>
Fund Balance at Beginning of Year	1,582,351	1,582,351	1,582,351	-
Prior Year Encumbrances Appropriated	<u>78,679</u>	<u>78,679</u>	<u>78,679</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,449,652</u>	<u>\$ 1,157,152</u>	<u>\$ 2,001,382</u>	<u>\$ 844,230</u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>PRIVATE PURPOSE TRUST</u>	<u>AGENCY FUND</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 1,297	\$ 27,286
Investments	<u>73,749</u>	<u>-</u>
Total Assets	<u>\$ 75,046</u>	<u>\$ 27,286</u>
Liabilities:		
Due to Students	<u>\$ -</u>	<u>\$ 27,286</u>
Total Liabilities	<u>-</u>	<u>\$ 27,286</u>
Net Assets		
Held in Trust for Scholarships	<u>75,046</u>	
Total Net Assets	<u>\$ 75,046</u>	

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005**

Additions:		
Interest	\$	<u>1,771</u>
Deductions:		
Operating		<u>1,169</u>
Net Increase in Assets Resulting from Operations		602
Net Assets Beginning of Year		<u>74,444</u>
Net Assets End of Year	\$	<u><u>75,046</u></u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Bethel Local School District (the District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. 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 in 1894 through the consolidation of existing land areas and school districts. The District serves an area of approximately 25 square miles. It is located in Miami County, and includes all of the Village of Brandt and portions of Bethel Township. It is staffed by 37 non-certified employees, 56 certificated full-time teaching personnel and 5 administrative employees who provide services to 951 students and other community members. The District currently operates two instructional buildings and one administrative building.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District 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 Bethel Local School District, this includes general operations, food service, latchkey, 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 body 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 for which 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 three organizations, which are defined as jointly governed and three insurance purchasing pool. These organizations are discussed in Note 15 and 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
- Ohio School Plan

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bethel Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its government-wide 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 statements consist of government-wide 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.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide 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 and 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 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 funds 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 fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

General Fund

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

Permanent Improvement Fund

The Permanent Improvement Fund is used to account for all transactions related to acquiring, constructing, and improving buildings and grounds to extend their useful life beyond five years.

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into 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. The District's only trust fund is a private-purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund is used to account for resources that belong to various student groups in the District.

C. Measurement Focus

Government-Wide Financial Statements

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

E. Budget Data

All funds, other than agency funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The 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 Board has established the legal level of control at the fund level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the District. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

The appropriation resolution is subject to amendment by the Board throughout the school year with the restriction that appropriations may not exceed estimated resources. 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.

F. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. 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 balance sheet.

Cash and cash equivalents are defined as deposits with a maturity of three months or less, money market investments and holdings in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940, which requires investments in the 2a-7 like pool to be reported at amortized cost (which approximates fair value).

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005 amounted to \$83,717 which includes the general funds allocation as well as the allocations of all funds not specified in the Board's resolution. The non-major funds also earned interest in the amount of \$426.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, and purchased food. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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 is reported in the year in which services are consumed.

I. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District for the purchase of textbooks, instructional materials, capital acquisitions, and the creation of a reserve for budget stabilization. See Note 18 for additional information regarding set-sides.

J. Estimates

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

K. Capital Assets and Depreciation

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated capital assets are recorded at their fair market values as of the date received.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also not capitalized.

All reported capital assets except for 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.

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	8 – 20 years
Vehicles	10 years

L. Interfund Activity

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

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered. The District records a liability for accumulated, unused vacation time for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. 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 sick leave for all employees after ten years of current service with the District.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due to employees who were retired at June 30, 2005, but were not paid as of that date. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination 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 during the current year.

O. 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.

P. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money previously received through workers' compensation rebates which are required to be set-aside by statute to be spent on specific purposes.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For the fiscal year 2005, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposit and Investment Risk Disclosures*". GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risk: credit risk, interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risk: custodial credit risk and foreign currency risk. This statement had no effect on net assets or fund balance. The additional disclosures required by this statement can be found in Note 6.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS
(Continued)

B. Restatement of Net Assets

There were adjustments to capital assets due to an error in the prior year that caused a restatement to net assets as of June 30, 2004. The governmental activities net assets amount at June 30, 2004, was adjusted by \$803,261, for the restatement of capital assets from \$2,616,663 to \$3,419,924.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds have fund equity deficits as of June 30, 2005:

	Deficit Fund <u>Equity</u>
Special Revenue:	
Food Service	\$ 21,193
Title VI-B	64
Title I	71
Class Size Reduction	59

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2006. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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 fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

	Net Change in Fund Balance	
	General Fund	
GAAP Basis	\$	503,982
Revenue Accruals		(587,699)
Expenditure Accruals		351,456
Encumbrances		<u>72,613</u>
Budget Basis	\$	<u>340,352</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. At year-end, the carrying amount of the District's deposits was \$3,308,379 and the bank balance was \$3,448,270. \$121,966 of the bank balance was covered by federal depository insurance and \$3,326,304 was collateralized with securities held by the pledging financial institution's agent in the District's name.

Investments: Investments are required to be reported at fair value. At year-end the District had investments in STAR Ohio (a statewide external investment pool) at a fair value of \$2,264. The District's investments in STAR Ohio were rated AAAM by Standard & Poor's. Due to the limited nature of investments, the District does not have a formal investment policy.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (Continued)

The amount available as an advance at June 30, 2005 was \$223,830 in the general fund and \$30,379 in the permanent improvement capital projects fund.

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

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

	<u>2005 First Half Collections</u>		<u>2004 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 115,861,780	92.57%	\$ 107,266,830	91.60%
Public Utility	3,738,460	2.99%	3,820,200	3.26%
Tangible Personal Property	<u>5,554,460</u>	<u>4.44%</u>	<u>6,020,660</u>	<u>5.14%</u>
Total Assessed Value	<u>\$ 125,154,700</u>	<u>100%</u>	<u>\$ 117,107,690</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$57.39		\$55.11	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of current and delinquent property taxes, accounts (student fees), intergovernmental grants and interfund transactions. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Summer Intervention	\$ 8,279
Title VI-B	43,618
Title V	48
Title II-A	<u>5,331</u>
Total	<u>\$ 57,276</u>

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

	Balance 6/30/04- Restated	Additions	Deductions	Balance 6/30/05
<u>Capital Assets, not being depreciated</u>				
Land	\$1,165,600	-	-	\$1,165,600
<u>Capital Assets, being depreciated</u>				
Land Improvements	337,548	9,595	-	347,143
Buildings and Improvements	2,594,055	15,004	-	2,609,059
Furniture and Equipment	1,870,811	74,858	(48,439)	1,897,230
Vehicles	696,215	-	-	696,215
	<u>5,498,629</u>	<u>99,457</u>	<u>(48,439)</u>	<u>5,549,647</u>
<u>Less: Accumulated Depreciation</u>				
Land Improvements	(275,224)	(28,226)		(303,450)
Buildings and Improvements	(1,218,645)	(47,835)	-	(1,266,480)
Furniture and Equipment	(1,295,701)	(93,990)	41,154	(1,348,537)
Vehicles	(454,743)	(43,159)	-	(497,902)
	<u>(3,244,313)</u>	<u>(213,210)</u>	<u>* 41,154</u>	<u>(3,416,369)</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,419,916</u>	<u>(113,753)</u>	<u>(7,285)</u>	<u>\$ 3,298,878</u>

* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 94,665
Special	145
Support Services:	
Pupils	467
Instructional Staff	13,556
Administration	1,466
Fiscal	199
Business	1,231
Operation and Maintenance of Plant	7,544
Pupil Transportation	44,566
Central	3,451
Operation of Non-Instructional Services	6,250
Extracurricular Activities	7,187
	<u>180,727</u>
Unallocated Depreciation	32,483
Total Depreciation Expense	<u>\$ 213,210</u>

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS (Continued)

Unallocated depreciation is depreciation of the individual school buildings throughout the District which essentially serve all functions/programs, and therefore is not included as a direct expense of any function or program but disclosed as a separate expense.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

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 2005, the District contracted with Cincinnati Insurance Co. for property and contents insurance.

During fiscal year 2005, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 16). The District contracts for automobile liability, education general liability and employee benefits liability with OSP.

Insurance coverage provided includes the following:

Buildings and Contents – replacement cost (\$1,000 deductible)	\$10,818,306
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	50,000
Gym – leased from boosters	810,890
School Errors & Omissions Liability	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	3,000,000
Umbrella Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2005, the District participated in the Southwest Ohio Educational Purchasing Council of Worker's Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (see Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving percentage of the GRP.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

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

C. Medical Benefits

For fiscal year 2005, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (See Note 16). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP’s selection criteria.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to SERS, 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The District’s contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$196,905 \$122,463 and \$70,735, respectively; 26 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$145,241 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds and the Statement of Net Assets.

B. State Teachers Retirement System

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$353,732, \$339,242 and \$311,293, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

C. Social Security System

Effective, July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, one member of the Board of Education has elected Social Security. The District's liability is 6.2 percent of wages paid. The remaining Board members contribute to the School Employees Retirement System.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents.

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.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004 (the latest information available). For the District, this amount equaled \$25,267 during the 2005 fiscal year.

For the year ended June 30, 2004 (the latest information available), net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, the allocation rate is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the School, the amount to fund health care benefits, including the surcharge, was \$122,039 for fiscal year 2005.

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, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 (the latest information available), the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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 215 days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave to a maximum of 54 days for all employees.

B. Health Care Benefits

The District provides life insurance and accidental death and dismemberment insurance to employees through Anthem Life. The District provides health insurance coverage through United Health Care of Ohio, Inc. The employees share the cost of the monthly premium with the Board. The premium varies with each employee depending on the terms of the union contract. Dental insurance is provided through Guardian.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2005 were as follows:

	Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due in One Year
Compensated Absences	303,958	69,558	-	373,516	-
Capital Lease Payable	992,000	-	16,000	976,000	20,000
Total Governmental Activities	<u>1,295,958</u>	<u>69,558</u>	<u>16,000</u>	<u>1,349,516</u>	<u>20,000</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The capital lease was used to purchase 132 acres of land adjacent to the schools current location with the intent of building new school buildings in the future.

The District's overall legal debt margin was \$10,287,923 with an unvoted debt margin of \$125,155 and an energy conservation debt margin of \$1,126,392 at June 30, 2005.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

The District's capital lease requirements to maturity are as follows:

Year ended June 30,	
2006	67,918
2007	67,284
2008	67,560
2009	67,745
2010	66,866
2011-2015	334,674
2016-2020	333,518
2021-2025	331,557
2026-2030	328,599
2031-2032	<u>129,675</u>
Total minimum lease payments	1,795,396
Less: amount representing interest	<u>(819,396)</u>
Present value of minimum lease payments	<u>\$ 976,000</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. During fiscal year 2005, the District paid \$34,384 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405

Southwestern Ohio Educational Purchasing Cooperative

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2005, the District paid \$3,583 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation organized to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year 2005, the District paid \$2,342 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 6 West High Street, Suite 500, Springfield, Ohio 45502.

NOTE 16 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - INSURANCE PURCHASING POOL (Continued)

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group Inc. Hylant Group Inc., is the administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which established agreements between OSP and member schools.

NOTE 17 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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 amount for the acquisition and construction of capital improvements. Although the District had qualifying offsets and disbursements during the year that reduced the set-aside amount below zero for capital acquisitions, these extra amounts may not be used to reduce the set-aside requirement of future years. Excess disbursements related to the textbook reserve may be carried forward from year to year. 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.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

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.

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	\$ 46,083	\$ -	\$ 33,271
Current Year Set-aside Requirement	132,411	132,411	-
Qualifying Disbursements	(967,169)	(586,196)	-
Current Year Offsets	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>(788,675)</u>	<u>(453,785)</u>	<u>33,271</u>
Set-aside Balances Carried Forward to Future Fiscal Years	\$ <u>(788,675)</u>	\$ <u>-</u>	\$ <u>33,271</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. The portion of monies which had previously accumulated in the budget stabilization reserve that were not related to workers' compensation rebates received by the District, are now available for ordinary operating costs incurred by the District and therefore are reported as unreserved and undesignated fund balance in the General Fund. Current State statute requires the District to continue reporting funds received that were related to workers' compensation rebates in the budget stabilization reserve. Restrictions exist as to the manner in which these funds may be spent. As the District's budget stabilization account is not comprised of workers' compensation rebate funds, the entire balance is reported as unreserved and undesignated in the general fund balance.

NOTE 19 - CONTINGENCIES

A. 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, 2005.

B. Litigation

The District is not party to any legal proceedings.

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

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

February 15, 2007

Bethel Local School District
Miami County
7490 South State Route 201
Tipp City, Ohio 45371

To the Board of Education:

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Bethel Local School District, Miami County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 15, 2007, we reported other matters involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 15, 2007, we reported other matters related to noncompliance we deemed immaterial.

Bethel Local School District
Miami County
Independent Accountants' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC § 5705.41 (B) – Expenditures exceeding Appropriations	Yes	Corrected



Mary Taylor, CPA
Auditor of State

BETHEL LOCAL SCHOOL DISTRICT

MIAMI 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
APRIL 10, 2007**