

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*

KAREN J. BOTZKO, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of Bettsville Local School District, Seneca County, prepared by Julian & Grube, Inc., 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. Bettsville Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 12, 2005

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

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

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

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

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

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

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005 on our consideration of the Bettsville Local School District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Bettsville Local School District

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

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

Julian & Grube, Inc.
October 10, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$167,046 which represents a 2.63% decrease from 2004.
- General revenues accounted for \$2,006,491 in revenue or 70.20% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$851,939 or 29.80% of total revenues of \$2,858,430.
- The District had \$3,025,476 in expenses related to governmental activities; \$851,939 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$2,006,491 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, the permanent improvement fund, and the migrant fund. The general fund had \$2,164,702 in revenues and \$2,234,200 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$69,498 from \$511,488 to \$441,990.
- The permanent improvement fund had \$1,216 in revenues and \$33,721 in expenditures. During fiscal year 2005, the permanent improvement fund balance decreased \$32,505 from \$692,631 to \$660,126.
- The migrant fund had \$241,240 in revenues and \$232,275 in expenditures. During fiscal year 2005, the migrant fund balance increased \$8,965 from \$129,638 to \$138,603.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-45 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The following table is a comparative analysis of fiscal 2005 balances compared to 2004:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 2,203,084	\$ 2,196,976
Capital assets	<u>5,358,668</u>	<u>5,474,536</u>
Total assets	<u>7,561,752</u>	<u>7,671,512</u>
<u>Liabilities</u>		
Current liabilities	720,180	640,823
Long-term liabilities	<u>652,492</u>	<u>674,563</u>
Total liabilities	<u>1,372,672</u>	<u>1,315,386</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,798,196	4,884,731
Restricted	1,043,624	1,068,557
Unrestricted	<u>347,260</u>	<u>402,838</u>
Total net assets	<u>\$ 6,189,080</u>	<u>\$ 6,356,126</u>

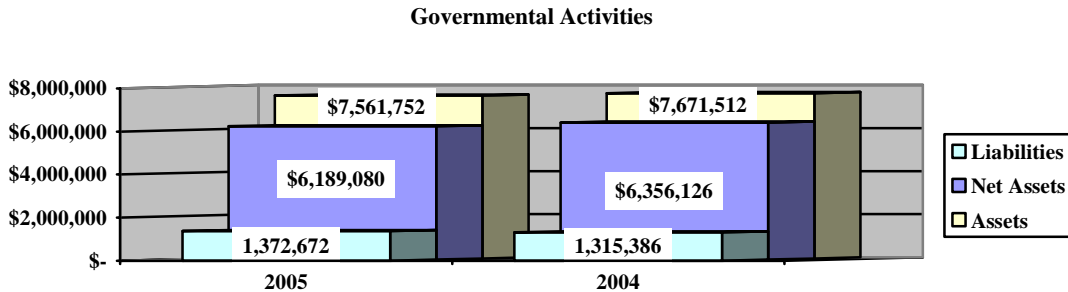
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,189,080. Of this total, \$347,260 is unrestricted in use.

At year-end, capital assets represented 70.87% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$4,798,196. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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A portion of the District's net assets, \$1,043,624, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$347,260 may be used to meet the District's ongoing obligations to the students and creditors. The table below illustrates the District's assets, liabilities and net assets at June 30, 2005 and 2004.



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 327,676	\$ 355,583
Operating grants and contributions	524,263	604,728
Capital grants and contributions	-	6,050
General revenues:		
Property taxes	683,612	657,811
Grants and entitlements	1,136,227	1,142,631
Investment earnings	34,070	29,000
Miscellaneous	<u>152,582</u>	<u>197,728</u>
Total revenues	<u>2,858,430</u>	<u>2,993,531</u>

**BETTSVILLE LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 1,278,302	\$ 1,248,962
Special	445,453	422,900
Support services:		
Pupil	88,607	106,721
Instructional staff	52,911	74,362
Board of education	9,292	9,810
Administration	251,445	251,780
Fiscal	167,606	157,826
Business	2,143	85
Operations and maintenance	256,755	278,741
Pupil transportation	196,531	130,451
Food service operations	111,951	108,927
Other non-instructional services	14,412	14,830
Extracurricular activities	117,403	108,686
Interest and fiscal charges	<u>32,665</u>	<u>33,649</u>
Total expenses	<u>3,025,476</u>	<u>2,947,730</u>
Change in net assets	(167,046)	45,801
Net assets at beginning of year	<u>6,356,126</u>	<u>6,310,325</u>
Net assets at end of year	<u>\$ 6,189,080</u>	<u>\$ 6,356,126</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$167,046. Total governmental expenses of \$3,025,476 were offset by program revenues of \$851,939 and general revenues of \$2,006,491. Program revenues supported 28.16% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 63.67% of total governmental revenue.

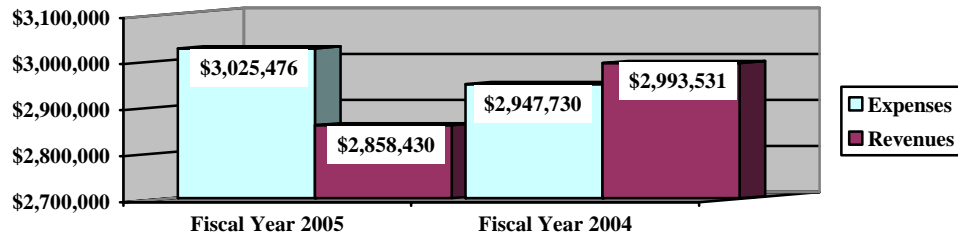
The largest expense of the District is for instructional programs. Instruction expenses totaled \$1,723,755 or 56.97% of total governmental expenses for fiscal year 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2004 have also been presented.

Governmental Activities

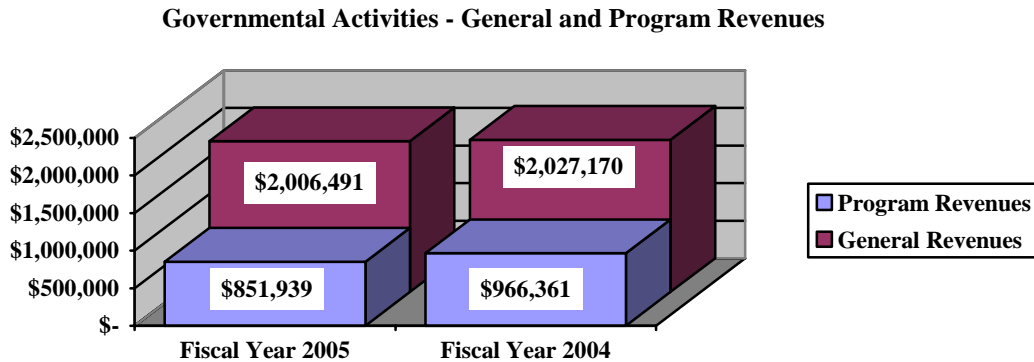
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 1,278,302	\$ 918,643	\$ 1,248,962	\$ 795,770
Special	445,453	156,524	422,900	111,760
Support services:				
Pupil	88,607	88,545	106,721	106,721
Instructional staff	52,911	50,735	74,362	45,531
Board of education	9,292	9,292	9,810	9,810
Administration	251,445	239,480	251,780	228,441
Fiscal	167,606	160,440	157,826	155,029
Business	2,143	2,143	85	85
Operations and maintenance	256,755	223,270	278,741	270,503
Pupil transportation	196,531	178,041	130,451	101,339
Other non-instructional services	14,412	2,621	14,830	14,830
Food service operations	111,951	21,285	108,927	24,417
Extracurricular activities	117,403	89,853	108,686	83,484
Interest and fiscal charges	32,665	32,665	33,649	33,649
Total expenses	<u>\$ 3,025,476</u>	<u>\$ 2,173,537</u>	<u>\$ 2,947,730</u>	<u>\$ 1,981,369</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 62.37% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 71.84%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,391,567, which is lower than last year's total of \$1,478,299. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	(Restated) Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 441,990	\$ 511,488	\$ (69,498)	(13.59) %
Permanent Improvement	660,126	692,631	(32,505)	(4.69) %
Migrant	138,603	129,638	8,965	6.92 %
Other Governmental	150,848	144,542	6,306	4.36 %
Total	<u>\$ 1,391,567</u>	<u>\$ 1,478,299</u>	<u>\$ (86,732)</u>	(5.87) %

General Fund

The District's general fund, fund balance decreased \$69,498 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A to the basic financial statements). Expenditures exceed revenues for fiscal year 2005 by \$38,209. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005 <u>Amount</u>	2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 606,271	\$ 622,696	\$ (16,425)	(2.64) %
Tuition	210,842	269,140	(58,298)	(21.66) %
Earnings on investments	32,831	27,106	5,725	21.12 %
Intergovernmental	1,128,810	1,135,071	(6,261)	(0.55) %
Other revenues	<u>185,948</u>	<u>160,556</u>	<u>25,392</u>	15.82 %
 Total	 <u>\$ 2,164,702</u>	 <u>\$ 2,214,569</u>	 <u>\$ (49,867)</u>	 (2.25) %
<u>Expenditures</u>				
Instruction	\$ 1,164,017	\$ 1,144,962	\$ 19,055	1.66 %
Support services	958,807	867,324	91,483	10.55 %
Extracurricular activities	69,107	65,991	3,116	4.72 %
Debt service	<u>10,980</u>	<u>10,980</u>	<u>-</u>	- %
 Total	 <u>\$ 2,202,911</u>	 <u>\$ 2,089,257</u>	 <u>\$ 113,654</u>	 5.44 %

Permanent Improvement Fund

Another of the District's major governmental funds is the permanent improvement fund. The permanent improvement fund had \$1,216 in revenues and \$33,721 in expenditures. During fiscal year 2005, the permanent improvement fund's fund balance decreased \$32,505 from \$692,631 to \$660,126.

Migrant Fund

Another of the District's major government funds is the migrant fund. The migrant fund had \$241,240 in revenues and \$232,275 in expenditures. During fiscal year 2005, the fund balance increased \$8,965 from \$129,638 to \$138,603.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$2,133,350 and final budgeted revenues and other financing sources were \$2,213,951. Actual revenues and other financing sources for fiscal year 2005 was \$2,206,570. This represents an \$73,220 increase over original budgeted revenues.

General fund original appropriations and other financing uses were \$2,284,237 and final appropriations and other financing uses totaled \$2,294,462. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$2,228,810, which is lower than the final budget appropriations by \$65,652.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$5,358,668 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 84,650	\$ 84,650
Land improvements	77,186	83,201
Building and improvements	4,929,520	5,061,448
Furniture and equipment	142,826	155,913
Vehicles	124,486	89,324
 Total	 \$ 5,358,668	 \$ 5,474,536

The overall decrease in capital assets of \$115,868 is due to depreciation expense of \$181,098 exceeding capital outlay of \$65,230 in the fiscal year. The increase in capital outlay is a result of acquisition of miscellaneous equipment.

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

Debt Administration

At June 30, 2005, the District had \$15,472 in capital leases and \$545,000 in general obligation bonds outstanding. Of this total, \$30,108 is due within one year and \$530,364 is due greater than one year. The following table summarizes the bonds and leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
Capital lease	\$ 15,472	\$ 24,805
General obligation bond	545,000	565,000
 Total	 \$ 560,472	 \$ 589,805

At June 30, 2005, the District's overall legal debt margin was \$1,481,396, and an unvoted debt margin of \$21,358.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

The District faces many challenges in the future. The District is very small with currently 230 students housed in one K-12 building.

Decreasing enrollment is a major concern. We are graduating classes of 25 kids and 9 students are entering kindergarten. A new village sewage plant is in the process of being completed and homes are being tied into the new system. This will allow people to build new homes in the District and hopefully bring in families with young children and also property tax and school income tax monies.

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

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

During the fiscal year ended June 30, 2002 we completed an Ohio School Facilities Project. The current school building was renovated and a new high school wing was constructed. This gave us more space for our many school classes and programs, but also we have additional costs for insurance, utilities, etc.

We approved a two year teacher agreement the summer 2004. A new medical (PPO) insurance was approved. This has saved the District money and being a member of the North Central Ohio Trust (NCOT) has kept the premium more level.

The five-year forecast shows that we should be in good shape for the current year and the next one or two years and then we don't know what will happen. With the passage of House Bill 66, the District is not sure how we will fare in the future; the State does not know how districts will fare. We have a small amount of personal property tax, but the reduction of personal property taxes will hurt the District.

We also have a change in the District's Board of Education. Two Board members resigned late summer and two new members were appointed. On November, 2005's ballot the District will have four positions open – one for two years and three for four years. As of August 25, 2005 we have four people running for the four seats, so the whole make-up and experience of the Board will change January, 2006.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,229,217
Cash with fiscal agents.	170,794
Receivables:	
Taxes	583,871
Accounts	302
Accrued interest	3,436
Due from other governments.	180,000
Prepayments	19,993
Materials and supplies inventory	15,471
Capital assets:	
Land	84,650
Depreciable capital assets, net	5,274,018
Capital assets, net.	<u>5,358,668</u>
 Total assets.	 <u>7,561,752</u>
Liabilities:	
Accounts payable.	34,023
Accrued wages and benefits	153,306
Pension obligation payable.	55,629
Due to other governments	3,083
Deferred revenue	471,707
Accrued interest payable	2,432
Long-term liabilities:	
Due within one year.	56,220
Due in more than one year	596,272
Total liabilities	<u>1,372,672</u>
Net Assets:	
Invested in capital assets, net of related debt.	4,798,196
Restricted for:	
Capital projects	660,126
Debt service.	104,877
State funded programs	6,039
Federally funded programs	197,970
Student activities.	5,984
Public school support	264
Classroom facilities maintenance.	26,489
Other purposes	41,875
Unrestricted.	<u>347,260</u>
Total net assets	<u>\$ 6,189,080</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 1,278,302	\$ 218,646	\$ 141,013	\$ (918,643)
Special	445,453	310	288,619	(156,524)
Support services:				
Pupil.	88,607	-	62	(88,545)
Instructional staff	52,911	-	2,176	(50,735)
Board of education	9,292	-	-	(9,292)
Administration.	251,445	20	11,945	(239,480)
Fiscal.	167,606	12	7,154	(160,440)
Business.	2,143	-	-	(2,143)
Operations and maintenance	256,755	30,716	2,769	(223,270)
Pupil transportation.	196,531	32	18,458	(178,041)
Operation of non-instructional services:				
Food service operations	111,951	50,369	40,297	(21,285)
Other non-instructional services	14,412	21	11,770	(2,621)
Extracurricular activities.	117,403	27,550	-	(89,853)
Interest and fiscal charges	32,665	-	-	(32,665)
Total governmental activities	<u>\$ 3,025,476</u>	<u>\$ 327,676</u>	<u>\$ 524,263</u>	<u>(2,173,537)</u>

General Revenues:

Income taxes and property taxes levied for:	
General purposes	621,647
Special revenue	8,545
Debt service.	53,420
Grants and entitlements not restricted	
to specific programs.	1,136,227
Investment earnings	34,070
Miscellaneous	152,582
Total general revenues.	<u>2,006,491</u>
Change in net assets	(167,046)
Net assets at beginning of year.	<u>6,356,126</u>
Net assets at end of year	<u>\$ 6,189,080</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Migrant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 338,389	\$ 674,604	\$ 36,894	\$ 153,886	\$ 1,203,773
Cash with fiscal agent.	170,496	-	-	298	170,794
Receivables:					
Taxes.	518,479	-	-	65,392	583,871
Accounts	302	-	-	-	302
Accrued interest	3,436	-	-	-	3,436
Interfund receivable	709	-	-	-	709
Due from other governments	-	-	180,000	-	180,000
Prepayments	16,110	-	-	3,883	19,993
Materials and supplies inventory	10,606	-	-	4,865	15,471
Restricted assets:					
Equity in pooled cash and cash equivalents.	25,444	-	-	-	25,444
Total assets	<u>\$ 1,083,971</u>	<u>\$ 674,604</u>	<u>\$ 216,894</u>	<u>\$ 228,324</u>	<u>\$ 2,203,793</u>
Liabilities:					
Accounts payable	\$ 15,712	\$ 14,478	\$ 2,209	\$ 1,624	\$ 34,023
Accrued wages and benefits	132,532	-	10,719	10,055	153,306
Compensated absences payable	5,793	-	-	-	5,793
Pension obligation payable	46,001	-	6,232	3,396	55,629
Due to other governments	2,889	-	62	132	3,083
Interfund payable.	-	-	-	709	709
Deferred revenue.	439,054	-	59,069	61,560	559,683
Total liabilities.	<u>641,981</u>	<u>14,478</u>	<u>78,291</u>	<u>77,476</u>	<u>812,226</u>
Fund Balances:					
Reserved for encumbrances	13,141	-	9,066	9,007	31,214
Reserved for materials and supplies inventory.	10,606	-	-	4,865	15,471
Reserved for prepayments	16,110	-	-	3,883	19,993
Reserved for debt service	-	-	-	100,918	100,918
Reserved for property tax unavailable for appropriation	25,492	-	-	3,832	29,324
Reserved for bus purchase allowance	16,230	-	-	-	16,230
Reserved for budget stabilization	9,214	-	-	-	9,214
Unreserved:					
Designation for budget stabilization.	25,390	-	-	-	25,390
Undesignated, reported in:					
General fund	325,807	-	-	-	325,807
Special revenue funds	-	-	129,537	28,343	157,880
Capital projects funds	-	660,126	-	-	660,126
Total fund balances	<u>441,990</u>	<u>660,126</u>	<u>138,603</u>	<u>150,848</u>	<u>1,391,567</u>
Total liabilities and fund balances	<u>\$ 1,083,971</u>	<u>\$ 674,604</u>	<u>\$ 216,894</u>	<u>\$ 228,324</u>	<u>\$ 2,203,793</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Total governmental fund balances		\$ 1,391,567
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,358,668
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 28,484	
Intergovernmental revenue	59,069	
Accrued interest	423	
Total		87,976
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(86,227)	
Capital lease payable	(15,472)	
General obligation bonds payable	(545,000)	
Accrued interest payable	(2,432)	
Total		(649,131)
Net assets of governmental activities		\$ 6,189,080

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Migrant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 606,271	\$ -	\$ -	\$ 59,680	\$ 665,951
Tuition.	210,842	-	-	-	210,842
Charges for services.	-	-	402	50,369	50,771
Earnings on investments.	32,831	1,216	-	9	34,056
Extracurricular.	-	-	-	27,550	27,550
Classroom materials and fees	7,802	-	-	-	7,802
Other local revenues.	178,146	-	-	5,147	183,293
Intergovernmental - Intermediate.	-	-	15,000	-	15,000
Intergovernmental - State.	1,128,810	-	-	44,287	1,173,097
Intergovernmental - Federal	-	-	225,838	256,605	482,443
Total revenue	<u>2,164,702</u>	<u>1,216</u>	<u>241,240</u>	<u>443,647</u>	<u>2,850,805</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,026,708	10,166	1,364	159,558	1,197,796
Special.	137,309	-	179,149	112,111	428,569
Support services:					
Pupil.	86,296	-	-	56	86,352
Instructional staff	37,895	-	-	1,947	39,842
Board of education	9,292	-	-	-	9,292
Administration.	233,540	-	11,605	892	246,037
Fiscal	159,379	-	7,091	230	166,700
Operations and maintenance.	276,645	23,555	2,862	10,038	313,100
Pupil transportation	155,760	-	18,306	201	174,267
Operation of non-instructional services:					
Food service operations	-	-	-	98,927	98,927
Other non-instructional services.	-	-	11,898	2,514	14,412
Extracurricular activities.	69,107	-	-	31,073	100,180
Debt service:					
Principal retirement	9,333	-	-	20,000	29,333
Interest and fiscal charges	1,647	-	-	31,083	32,730
Total expenditures	<u>2,202,911</u>	<u>33,721</u>	<u>232,275</u>	<u>468,630</u>	<u>2,937,537</u>
Excess of revenues over/(under) expenditures	<u>(38,209)</u>	<u>(32,505)</u>	<u>8,965</u>	<u>(24,983)</u>	<u>(86,732)</u>
Other financing sources (uses):					
Transfers in	-	-	-	31,289	31,289
Transfers (out).	<u>(31,289)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,289)</u>
Total other financing sources (uses)	<u>(31,289)</u>	<u>-</u>	<u>-</u>	<u>31,289</u>	<u>-</u>
Net change in fund balances	(69,498)	(32,505)	8,965	6,306	(86,732)
Fund balances at					
beginning of year (restated)	<u>511,488</u>	<u>692,631</u>	<u>129,638</u>	<u>144,542</u>	<u>1,478,299</u>
Fund balances at end of year.	<u>\$ 441,990</u>	<u>\$ 660,126</u>	<u>\$ 138,603</u>	<u>\$ 150,848</u>	<u>\$ 1,391,567</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

Net change in fund balances - total governmental funds \$ (86,732)

*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 expense exceeds capital outlays in the current period.

Capital asset additions	65,230	
Current year depreciation	<u>(181,098)</u>	
Total		(115,868)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		7,625
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Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		29,333
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Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		65
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Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(1,469)</u>
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Change in net assets of governmental activities \$ (167,046)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 600,035	\$ 624,501	\$ 620,716	\$ (3,785)
Tuition.	203,817	210,842	210,842	-
Earnings on investments.	29,582	30,550	30,602	52
Classroom materials and fees	7,756	10,000	8,023	(1,977)
Other revenue	200,559	207,642	207,162	(480)
Intergovernmental - State	1,091,200	1,130,386	1,128,810	(1,576)
Total revenue	<u>2,132,949</u>	<u>2,213,921</u>	<u>2,206,155</u>	<u>(7,766)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,051,955	1,065,800	1,026,429	39,371
Special.	140,880	146,787	137,462	9,325
Support services:				
Pupil.	91,299	93,811	89,084	4,727
Instructional staff	39,082	37,715	38,134	(419)
Board of education	9,522	12,371	9,291	3,080
Administration.	240,576	240,236	234,738	5,498
Fiscal	156,370	152,250	152,576	(326)
Operations and maintenance.	285,951	281,111	279,012	2,099
Pupil transportation	164,724	168,143	160,727	7,416
Extracurricular activities.	65,861	65,238	64,263	975
Total expenditures	<u>2,246,220</u>	<u>2,263,462</u>	<u>2,191,716</u>	<u>71,746</u>
Excess of revenues over (under) expenditures.	<u>(113,271)</u>	<u>(49,541)</u>	<u>14,439</u>	<u>63,980</u>
Other financing sources (uses):				
Refund of prior year expenditure.	29	30	30	-
Transfers in.	372	-	385	385
Transfers (out)	(37,290)	(31,000)	(36,385)	(5,385)
Advances (out)	(727)	-	(709)	(709)
Total other financing sources (uses)	<u>(37,616)</u>	<u>(30,970)</u>	<u>(36,679)</u>	<u>(5,709)</u>
Net change in fund balance	(150,887)	(80,511)	(22,240)	58,271
Fund balance at beginning of year.	347,588	347,588	347,588	-
Prior year encumbrances appropriated	22,524	22,524	22,524	-
Fund balance at end of year	<u>\$ 219,225</u>	<u>\$ 289,601</u>	<u>\$ 347,872</u>	<u>\$ 58,271</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MIGRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Charges for services	\$ -	\$ -	\$ 402	\$ 402
Other revenue	15,000	15,000	15,000	-
Intergovernmental - Federal	395,109	395,109	214,707	(180,402)
Total revenue	<u>410,109</u>	<u>410,109</u>	<u>230,109</u>	<u>(180,000)</u>
Expenditures:				
Current:				
Instruction:				
Special	248,394	336,484	193,615	142,869
Support services:				
Administration	14,525	14,003	11,322	2,681
Fiscal	9,097	13,413	7,091	6,322
Operations and maintenance	3,672	7,279	2,862	4,417
Pupil transportation	23,485	37,305	18,306	18,999
Operation of non-instructional services	16,599	25,060	12,938	12,122
Total expenditures	<u>315,772</u>	<u>433,544</u>	<u>246,134</u>	<u>187,410</u>
Net change in fund balance	94,337	(23,435)	(16,025)	7,410
Fund balance at beginning of year	35,223	35,223	35,223	-
Prior year encumbrances appropriated	6,421	6,421	6,421	-
Fund balance at end of year	<u>\$ 135,981</u>	<u>\$ 18,209</u>	<u>\$ 25,619</u>	<u>\$ 7,410</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 33,661
Total assets.	\$ 33,661
Liabilities:	
Accounts payable.	\$ 2,840
Due to students	30,821
Total liabilities	\$ 33,661

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 609th largest by enrollment among the 614 public school districts in the state and 7th in Seneca County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school located in one building. The District employs 12 non-certified and 23 certified employees to provide services to 238 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

PUBLIC ENTITY RISK POOLS

Seneca County Joint Insurance Trust (the "Association")

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Ohio School Boards Association Workers' Compensation Group Rating Program

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. The District paid \$21,816 to NOECA in fiscal year 2005 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 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.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination. The Seneca County Commissioners waived this requirement for fiscal 2005.
3. Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to certificates of deposit.

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$32,831 which includes \$22,993 assigned from other District funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,000. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, debt service, tax revenue unavailable for appropriation, budget stabilization and bus purchase allowance. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

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

L. Net Assets

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

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

M. Prepayments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

N. Estimates

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

O. Restricted Assets

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Migrant</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 531,487	\$ 692,631	\$ 130,235	\$ 147,402	\$ 1,501,755
GASB Technical Bulletin No. 2004-2	<u>(19,999)</u>	<u>-</u>	<u>(597)</u>	<u>(2,860)</u>	<u>(23,456)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 511,488</u>	<u>\$ 692,631</u>	<u>\$ 129,638</u>	<u>\$ 144,542</u>	<u>\$ 1,478,299</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food service	\$ 1,255
EMIS	1,599
Title I	5,356
Title VI	2
Classroom Reduction Grant	8
Miscellaneous Federal Grant Fund	24

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of 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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the District had \$750 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Fiscal Agents

At June 30, 2005, the District had \$170,496 in cash held by the Ohio Mid-Eastern Regional Education Service Agency and \$298 in cash held by North Central Ohio Educational Service Center, which is included on the balance sheet as "Cash with Fiscal Agents". The money held by the fiscal agents cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants.

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,262,128. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,188,877 of the District's bank balance of \$1,336,059 was exposed to custodial risk as discussed below, while \$147,182 was covered by Federal Deposit Insurance Corporation.

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

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,262,128
Cash with fiscal agents	170,794
Cash on hand	750
Total	\$ 1,433,672
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,400,011
Agency funds	33,661
Total	\$ 1,433,672

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 709

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General Fund	\$ 31,289
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the Statement of Activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

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, 2005, 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 District prior to June 30.

The District receives property taxes from Seneca County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

The amount available as an advance at June 30, 2005 was \$25,492 in the general fund, \$3,242 in the debt service fund, and \$590 in the Classroom Facilities Maintenance Fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$48,557 in the general fund, \$6,265 in the debt service fund, and \$1,169 in the Classroom Facilities Maintenance Fund.

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:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 16,441,420	82.66	\$ 16,525,320	77.37
Public utility personal	1,340,490	6.74	1,255,540	5.88
Tangible personal property	<u>2,109,221</u>	<u>10.60</u>	<u>3,577,320</u>	<u>16.75</u>
Total	<u>\$ 19,891,131</u>	<u>100.00</u>	<u>\$ 21,358,180</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 35.00		\$ 35.00	
Debt Service	3.50		3.50	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a renewal of a 1% school district income tax at the November 2003 election that became effective January 1, 1999. This tax is effective for five years. School district income tax revenue received by the general fund during fiscal year 2005 was \$184,840.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes - current and delinquent	\$ 583,871
Accounts	302
Due from other governments	180,000
Accrued interest	<u>3,436</u>
 Total receivables	 <u>\$ 767,609</u>

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

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 84,650	\$ -	\$ -	\$ 84,650
Total capital assets, not being depreciated	<u>84,650</u>	<u>-</u>	<u>-</u>	<u>84,650</u>
Capital assets, being depreciated:				
Land improvements	120,300	-	-	120,300
Building/improvements	6,272,920	-	-	6,272,920
Furniture/equipment	425,458	8,280	(4,560)	429,178
Vehicles	202,968	56,950	-	259,918
Total capital assets, being depreciated	<u>7,021,646</u>	<u>65,230</u>	<u>(4,560)</u>	<u>7,082,316</u>
Less: accumulated depreciation				
Land improvements	(37,099)	(6,015)	-	(43,114)
Building/improvements	(1,211,472)	(131,928)	-	(1,343,400)
Furniture/equipment	(269,545)	(21,367)	4,560	(286,352)
Vehicles	(113,644)	(21,788)	-	(135,432)
Total accumulated depreciation	<u>(1,631,760)</u>	<u>(181,098)</u>	<u>4,560</u>	<u>(1,808,298)</u>
Governmental activities capital assets, net	<u>\$ 5,474,536</u>	<u>\$ (115,868)</u>	<u>\$ -</u>	<u>\$ 5,358,668</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 78,642
Special	16,726
Support Services:	
Pupil	1,739
Instructional staff	13,069
Administration	3,421
Business	2,143
Operations and maintenance of plant	4,726
Pupil transportation	30,353
Operation of non-instructional services:	
Food service	13,056
Extracurricular	<u>17,223</u>
Total depreciation expense	<u>\$ 181,098</u>

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the District entered into a capitalized lease for the acquisition of a copier. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reflected as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$45,127. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2005 fiscal year totaled \$9,333 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005.

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 10,980
2007	<u>5,490</u>
Total minimum lease payment	16,470
Less: amount representing interest	<u>(998)</u>
Present value of minimum lease payments	<u>\$ 15,472</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS

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

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

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

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

- B. The following is a description of the District's bonds outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 07/01/04</u>	<u>Bonds Retired in Fiscal 2005</u>	<u>Balance 06/30/05</u>
School improvement bonds	5.39%	12/01/23	\$ 565,000	\$ (20,000)	\$ 545,000

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

<u>Fiscal Year Ending June 30</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2006	\$ 20,000	\$ 28,807	\$ 48,807
2007	20,000	27,993	47,993
2008	20,000	27,162	47,162
2009	20,000	26,318	46,318
2010	20,000	25,462	45,462
2011 - 2015	120,000	111,660	231,660
2016 - 2020	160,000	72,540	232,540
2021 - 2024	165,000	19,744	184,744
Total	<u>\$ 545,000</u>	<u>\$ 339,686</u>	<u>\$ 884,686</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

D. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amount
	June 30, 2004	Additions	Reductions	June 30, 2005	Due in
					One Year
Governmental Activities:					
Compensated absences payable	\$ 84,758	\$ 25,224	\$ (17,962)	\$ 92,020	\$ 26,112
General obligation bonds payable	565,000	-	(20,000)	545,000	20,000
Capital lease obligation	24,805	-	(9,333)	15,472	10,108
Total governmental activities long-term liabilities	<u>\$ 674,563</u>	<u>\$ 25,224</u>	<u>\$ (47,295)</u>	<u>\$ 652,492</u>	<u>\$ 56,220</u>

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$1,481,396 (including available funds of \$100,918) an unvoted debt margin of \$21,358.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Insurance

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

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 2.A). The Group Rating Program's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the Ohio School Boards Association, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Group Rating Program to cover the costs of administering the program.

The intent of the Group Rating Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Group Rating Program. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Group Rating Program. Each participant pays its workers' compensation premium to the state based on the rate for the Group Rating Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Group Rating Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Group Rating Program. Participation in the Group Rating Program is limited to school districts that can meet the Group Rating Program's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Group Rating Program.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$50,458, \$49,441 and \$45,451, respectively; 48% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$26,208 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$142,446, \$133,815, and \$125,670, respectively; 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$23,732 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$287 made by the District and \$4,497 made by plan members.

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 have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$10,175 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$19,694 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund and migrant fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance		
	<u>General Fund</u>	<u>Migrant Fund</u>
Budget basis	\$ (22,240)	\$ (16,025)
Net adjustment for revenue accruals	(41,453)	11,131
Net adjustment for expenditure accruals	(27,156)	2,584
Net adjustment for other sources/uses	5,390	-
Adjustment for encumbrances	<u>15,961</u>	<u>11,275</u>
GAAP basis	<u>\$ (69,498)</u>	<u>\$ 8,965</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>	
			<u>Reserved</u>	<u>Designated</u>
Set-aside cash balance as of June 30, 2004	\$ (56,353)	\$ (527,499)	\$ 9,214	\$ 25,390
Current year set-aside requirement	37,774	37,774	-	-
Qualifying disbursements	<u>(5,667)</u>	<u>(27,614)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (24,246)</u>	<u>\$ (517,339)</u>	<u>\$ 9,214</u>	<u>\$ 25,390</u>
Balance carried forward to FY 2006	<u>\$ (24,246)</u>	<u>\$ (517,339)</u>	<u>\$ 9,214</u>	<u>\$ 25,390</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES - (Continued)

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$16,230 for school bus reserves is in the general fund on the combined balance sheet at June 30, 2005.

A schedule of the general fund restricted assets at June 30, 2005 follows:

Amount restricted for bus purchase allowance	\$ 16,230
Amount restricted for budget stabilization	<u>9,214</u>
Total restricted assets	<u>\$ 25,444</u>

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bettsville Local School District as of and for the fiscal year ended June 30, 2005, which collectively comprise the Bettsville Local School District’s basic financial statements and have issued our report thereon dated October 10, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bettsville Local School District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we reported to management of Bettsville Local School District, in a separate letter dated October 10, 2005.

Board of Education
Bettsville Local School District

Compliance and Other Matters

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

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

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

Julian & Grube, Inc.
October 10, 2005



**Auditor of State
Betty Montgomery**

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BETTSVILLE LOCAL SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2005**