

BELLEFONTAINE CITY SCHOOL DISTRICT

LOGAN COUNTY

BASIC FINANCIAL STATEMENTS – CASH BASIS

For The Year Ended June 30, 2006

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS



Mary Taylor, CPA
Auditor of State

Board of Education
Bellefontaine City School District
820 Ludlow Avenue
Bellefontaine, Ohio 43311

We have reviewed the *Independent Auditors' Report* of the Bellefontaine City School District, Logan County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 4, 2007

This Page is Intentionally Left Blank.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2
Basic Financial statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis	8
Statement of Activities – Cash Basis	9
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds	10
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	11
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Cash Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - General Fund	14
Statement of Fund Net Assets – Cash Basis – Proprietary Funds	15
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis - Proprietary Funds	16
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds	17
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Funds	18
Notes to the basic financial statements	19
Independent Auditors' 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	35
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	36
Schedule of Federal Receipts and Disbursements	38
Schedule of Findings and Questioned Costs	39
Schedule of Prior Audit Findings	41

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue
Lima, Ohio 45805-1130
PH 419-331-1040
FAX 419-331-1120
www.reacpa.com

We're Ready For Your Future

February 12, 2007

The Board of Education
Bellefontaine City School District
Bellefontaine, Ohio 43311

INDEPENDENT AUDITOR'S REPORT

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

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

Ohio Administrative Code 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Bellefontaine City School District, Logan County, Ohio, as of June 30, 2006, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.

Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information that the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bellefontaine City School District, Logan County, Ohio's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

The management's discussion and analysis of the Bellefontaine City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

In total, net assets decreased \$1,340,002.

General receipts accounted for \$19,577,592 or 77 percent of all receipts. Program specific receipts in the form of charges for services and operating and capital grants and contributions accounted for \$4,748,577 or 23 percent of total receipts of \$24,326,169.

The District's major funds included the General Fund and the Bond Retirement Fund. The General Fund had \$19,622,412 in receipts and other financing sources, and \$20,220,350 in disbursements and other financing uses. The General Fund's balance decreased \$597,938 from the prior fiscal year. The Bond Retirement Debt Service Fund had \$1,105,728 in receipts and other financing sources and \$2,010,683 in disbursements and other financing uses. The Bond Retirement Fund's balance decreased \$904,955 from the prior fiscal year.

The receipts generated from the Debt Service Fund are used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities, both reported on the cash basis, 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 a greater 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 non-major funds presented in total in a single column. For the District, the General Fund is the most significant fund. The General Fund and the Bond Retirement Fund are the District's major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities, both reported on the cash basis, reflect how the District did financially during fiscal year 2006. These statements are reported on the cash basis of accounting, which reflects receipts and disbursements when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes 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, cash basis, and the statement of activities, cash basis, the District discloses a single type of activity - governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities and food services.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statement focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Funds – When the school district charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The District has one proprietary fund – an Internal Service Fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the District's other financial statements because the resources from these funds are not available to support the District's programs. These funds use the cash basis of accounting.

The School District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 and 2005.

Table 1
Net Assets
Governmental Activities

	<u>2006</u>	<u>2005</u>
Equity in Pooled Cash and Cash Equivalents	<u>\$5,105,703</u>	<u>\$6,445,705</u>
Restricted for:		
Debt Service	\$ 753,902	\$ 1,658,857
Capital Outlay	454,307	326,369
Other Purposes	272,003	254,584
Unrestricted	<u>3,625,491</u>	<u>4,205,895</u>
Total Net Assets	<u>\$5,105,703</u>	<u>\$6,445,705</u>

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

Table 2 reflects the changes in net assets for fiscal year 2006 and 2005.

Table 2
Changes in Net Assets- Cash Basis
Governmental Activities

	2006	2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 951,065	\$ 995,070
Operating Grants, Contributions and Interest	3,772,143	2,180,736
Capital Grants and Contributions	25,369	0
Total Program Receipts	4,748,577	3,175,806
General Receipts:		
Property Taxes	8,296,595	8,561,266
Grants and Entitlements	10,750,723	11,490,049
Investment Earnings	165,245	81,176
Miscellaneous	365,029	376,143
Interest Received on Debt Issue	0	13,078
Proceeds from Sale of Refunding Bonds	0	7,475,000
Premium on Refunding Bond Issue	0	796,537
Total General Receipts	19,577,592	28,793,249
Total Receipts	24,326,169	31,969,055
Disbursements:		
Instruction	14,177,471	13,992,750
Support Services:		
Pupils	1,038,803	925,308
Instructional Staff	1,403,973	1,406,403
Board of Education	149,651	170,953
Administration	1,763,842	1,703,916
Fiscal	414,647	407,305
Business	172,009	186,907
Operation and Maintenance of Plant	2,061,372	2,044,990
Pupil Transportation	586,643	582,937
Central	303,423	309,759
Non-Instructional	1,111,679	1,055,635
Extracurricular Activities	492,518	512,820
Capital Outlay	200	27,597
Principal	554,618	405,049
Interest and Fiscal Charges	785,122	656,459
Bond Issuance Costs	0	146,337
Payment of Refunded Bonds	650,200	7,475,000
Total Disbursements	25,666,171	32,010,125
Decrease in Net Assets	\$ (1,340,002)	\$ (41,070)

Program receipts account for 23 percent of total receipts and are represented by restricted intergovernmental receipts, extracurricular activities, and food service sales.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

The majority of program disbursements for governmental activities are for instruction, which accounts for 48 percent of all governmental disbursements. Other programs, which support the instruction process, including pupil, instructional staff, and pupil transportation account for 10 percent of governmental disbursements. Maintenance of the District's facilities also represents a significant disbursement of 7 percent. The remaining 35 percent of the District's disbursements are related to the primary functions of delivering education and providing facilities. These costs are funded almost entirely from property taxes and grants and entitlements.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities, cash basis, reflects the cost of program service and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 14,177,471	\$ 11,562,324	\$ 13,992,750	\$ 12,165,078
Support Services:				
Pupils	1,038,803	924,901	925,308	925,308
Instructional Staff	1,403,973	996,418	1,406,403	1,406,403
Board of Education	149,651	148,792	170,953	170,953
Administration	1,763,842	1,688,707	1,703,916	1,551,616
Fiscal	414,647	410,984	407,305	407,305
Business	172,009	171,021	186,907	186,907
Operation and Maintenance of Plant	2,061,372	2,024,536	2,044,990	2,044,990
Pupil Transportation	586,643	505,148	582,937	582,937
Central	303,423	272,609	309,759	309,759
Non-Instructional	1,111,679	24,904	1,055,635	83,775
Extracurricular Activities	492,518	289,478	512,820	288,846
Capital Outlay	200	200	27,597	27,597
Principal	554,618	462,250	405,049	405,049
Interest and Fiscal Charges	785,122	785,122	656,459	656,459
Bond Issuance Costs	0	0	146,337	146,337
Payment of Refunded Bonds to Escrow Agent	650,200	650,200	7,475,000	7,475,000
Total Disbursements	\$ 25,666,171	\$ 20,917,594	\$ 32,010,125	\$ 28,834,319

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 79 percent of instruction activities are supported through taxes and other general receipts. For all governmental activities, support from general revenues is 75 percent and 22 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. The District's major government funds were the General Fund and the Bond Retirement Fund. Total governmental funds had receipts of \$24,326,169 and disbursements of \$25,666,171. The net change of (\$1,340,002) in fund balance for the year indicates that the District is not meeting current costs.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

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 2006, the District amended its General Fund budget as needed. Final disbursements were budgeted at \$21,380,537, while actual disbursements were \$20,306,694.

Debt Administration

At June 30, 2006, the District had \$8,879,268 in general obligation bonds for the construction and improvement of buildings. The bonds were issued for a twenty-two year period with final maturity on December 1, 2026. The bonds are retired from the Bond Retirement Fund.

At June 30, 2006 the balance of the District's Energy Conservation Improvement Notes was zero. The notes matured on December 1, 2005. Payments were made from the Bond Retirement Fund.

At June 30, 2006, the District's overall legal debt margin was \$27,423,196, with an un-voted debt margin of \$1,485,851.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

Property tax revenue estimates are based on historical collection levels. The district's assessed valuation has remained fairly constant the last few years. As a result, the district has not realized any substantial growth in local tax revenues. This is reflected in the figures used for the five year forecast. The next scheduled reappraisal year is 2007. The district is located in Logan County.

The biennial State budget (HB66) covers the State funding cycle July 1, 2005 through June 30, 2007. The passage of HB66 will have long-term devastating effects on school funding. HB66 contains two elements that phases out two revenue streams to school districts that will have major effects on school funding. These two elements are the complete phase out of both personal tangible taxes and the cost of doing business factor.

The State has implemented hold harmless payments during the first five years of the personal tangible phase out. After the initial five year period, direct reimbursements will be phased out on an equal reduction schedule over the next eight years. Once completely phased out, the district stands to lose a little over \$2,000,000 per year in personal tangible taxes unless the State enacts legislation to make the hold harmless payments permanent. Once the cost of doing business factor is completely phased out, the district stands to lose over \$570,000 per year in State revenue.

The district had a replacement operating levy on the November 2005 ballot that was approved by district voters. The district placed an emergency operating levy on the ballot in May 2006. The issue was narrowly defeated by twenty-five votes. The Board has placed an emergency operating levy on the November 2006 ballot. The last time the district received new additional millage for operating purposes was fifteen years ago (November 1991).

The District continues to analyze the long-term effects of HB66 and looks for long-range funding solutions.

The Board will be closely monitoring expenditures to bring them in line with estimated revenues. Pupil teacher ratios and class sizes will be closely monitored during fiscal year 2007. The result of this analysis will help determine whether to replace retiring certified staff at the end of the 2007 fiscal year as well as in future fiscal years.

The District had one issue on the November 7, 2006 ballot. The levy was a 5-year emergency operating levy. The last time the district received new additional millage for operating purposes was fifteen years ago. The levy was defeated but the School District continues its efforts to fund the district.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(Unaudited)

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or request for additional information should be directed to Keith E. Krieger, Treasurer, Bellefontaine City School District, 820 Ludlow Road, Bellefontaine, OH 43311.

Bellefontaine City School District
Logan County
Statement of Net Assets - Cash Basis
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and cash equivalents	<u>\$ 5,105,703</u>
<i>Total Assets</i>	<u><u>\$ 5,105,703</u></u>
Net Assets	
Restricted for:	
Debt Service	\$ 753,902
Capital Outlay	454,307
Other Purposes	272,003
Unrestricted	<u>3,625,491</u>
<i>Total Net Assets</i>	<u><u>\$ 5,105,703</u></u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 10,567,319	\$ 37,284	\$ 541,359	\$ 0	\$ (9,988,676)
Special	2,967,539	13,910	1,914,186	0	(1,039,443)
Vocational	622,464	0	88,298	0	(534,166)
Other	20,149	0	20,110	0	(39)
Support Services:					
Pupil	1,038,803	5,958	107,944	0	(924,901)
Instructional Staff	1,403,973	4,361	403,194	0	(996,418)
Board of Education	149,651	0	859	0	(148,792)
Administration	1,763,842	2,896	72,239	0	(1,688,707)
Fiscal	414,647	0	3,663	0	(410,984)
Business	172,009	0	988	0	(171,021)
Operation and Maintenance of Plant	2,061,372	0	11,467	25,369	(2,024,536)
Pupil Transportation	586,643	0	81,495	0	(505,148)
Central	303,423	4,362	26,452	0	(272,609)
Operation of Non-Instructional Services	1,111,679	680,733	406,042	0	(24,904)
Extracurricular Activities	492,518	201,561	1,479	0	(289,478)
Capital Outlay	200	0	0	0	(200)
Debt Service:					
Principal	554,618	0	92,368	0	(462,250)
Interest	785,122	0	0	0	(785,122)
Payment of Refunded Bonds	650,200	0	0	0	(650,200)
Totals	\$ 25,666,171	\$ 951,065	\$ 3,772,143	\$ 25,369	(20,917,594)
General Receipts					
Property Taxes Levied for:					
General Purposes					7,148,747
Capital Projects					228,123
Debt Service					919,725
Grants and Entitlements not Restricted to Specific Programs					10,750,723
Interest					165,245
Miscellaneous					365,029
<i>Total General Receipts</i>					<u>19,577,592</u>
Change in Net Assets					(1,340,002)
<i>Net Assets - Beginning of Year</i>					<u>6,445,705</u>
<i>Net Assets - End of Year</i>					<u><u>\$ 5,105,703</u></u>

Bellefontaine City School District
Logan County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2006

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 2,680,756	\$ 753,902	\$ 726,310	\$ 4,160,968
Restricted Pooled Cash and Cash Equivalents	512,756	0	0	512,756
<i>Total Assets</i>	<u>\$ 3,193,512</u>	<u>\$ 753,902</u>	<u>\$ 726,310</u>	<u>\$ 4,673,724</u>
 Fund Balances				
Reserved for Encumbrances	\$ 86,344	\$ 0	\$ 71,257	\$ 157,601
Reserved for Textbooks and Instructional Materials	425,263	0	0	425,263
Reserved for Budget Stabilization	80,693	0	0	80,693
Reserved for Bus Purchases	6,800	0	0	6,800
Unreserved:				
Undesignated, Reported in:				
General Fund	2,594,412	0	0	2,594,412
Special Revenue Funds	0	0	200,746	200,746
Debt Service Fund	0	753,902	0	753,902
Capital Projects Funds	0	0	454,307	454,307
<i>Total Fund Balances</i>	<u>\$ 3,193,512</u>	<u>\$ 753,902</u>	<u>\$ 726,310</u>	<u>\$ 4,673,724</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances	\$4,673,724
---	-------------

Amounts reported for governmental activities in the statement of net assets are different because of the following:

Governmental activities' net assets include the internal service funds' cash and cash equivalents. The proprietary funds' statements include these assets.

431,979
<u>431,979</u>

Net Assets of Governmental Activities

<u>\$5,105,703</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$ 7,148,747	\$ 919,725	\$ 228,123	\$ 8,296,595
Intergovernmental	12,105,948	93,798	2,348,491	14,548,237
Interest	159,524	0	1,090	160,614
Tuition and Fees	82,428	0	97,579	180,007
Food Service	0	0	597,062	597,062
Extracurricular Activities	0	0	173,994	173,994
Miscellaneous	125,765	0	239,264	365,029
<i>Total Receipts</i>	<u>19,622,412</u>	<u>1,013,523</u>	<u>3,685,603</u>	<u>24,321,538</u>
Disbursements				
Current:				
Instruction:				
Regular	9,875,121	0	705,101	10,580,222
Special	2,142,745	0	824,794	2,967,539
Vocation	622,464	0	0	622,464
Other	39	0	20,110	20,149
Support Services:				
Pupil	937,055	0	101,748	1,038,803
Instructional Staff	1,002,427	0	401,546	1,403,973
Board of Education	149,651	0	0	149,651
Administration	1,699,885	0	63,957	1,763,842
Fiscal	388,751	20,743	5,153	414,647
Business	172,009	0	0	172,009
Operation and Maintenance of Plant	1,996,740	0	64,632	2,061,372
Pupil Transportation	518,193	0	68,450	586,643
Central	272,634	0	30,789	303,423
Operation of Non-Instructional Services	10,321	0	1,101,358	1,111,679
Extracurricular Activities	339,910	0	152,608	492,518
Capital Outlay	200	0	0	200
Debt Service:				
Principal	0	554,618	0	554,618
Interest	0	785,122	0	785,122
Payment of Refunded Bonds	0	650,200	0	650,200
<i>Total Disbursements</i>	<u>20,128,145</u>	<u>2,010,683</u>	<u>3,540,246</u>	<u>25,679,074</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(505,733)</u>	<u>(997,160)</u>	<u>145,357</u>	<u>(1,357,536)</u>
Other Financing Sources (Uses)				
Transfers Out	(92,205)	0	(2,983)	(95,188)
Transfers In	0	92,205	2,983	95,188
<i>Total Other Financing Sources (Uses)</i>	<u>(92,205)</u>	<u>92,205</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(597,938)	(904,955)	145,357	(1,357,536)
<i>Fund Balances - Beginning of Year</i>	<u>3,791,450</u>	<u>1,658,857</u>	<u>580,953</u>	<u>6,031,260</u>
<i>Fund Balances - End of Year</i>	<u>\$ 3,193,512</u>	<u>\$ 753,902</u>	<u>\$ 726,310</u>	<u>\$ 4,673,724</u>
Encumbrances	<u>\$ 86,344</u>	<u>\$ 0</u>	<u>\$ 71,257</u>	<u>\$ 157,601</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County

*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$1,357,536)

*Amounts reported for governmental activities in the statement
of activities are different because of the following:*

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements).

17,534

Change in Net Assets of Governmental Activities (\$1,340,002)

Bellefontaine City School District
Logan County
Statement of Cash Receipts, Disbursements and Changes in Fund Balance
- Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Taxes	\$ 7,219,395	\$ 7,148,747	\$ 7,148,747	\$ 0
Intergovernmental	11,882,178	12,110,045	12,105,948	(4,097)
Interest	85,000	159,524	159,524	0
Tuition and Fees	151,509	81,851	82,428	577
Miscellaneous	217,700	118,279	125,765	7,486
<i>Total Receipts</i>	<u>19,555,782</u>	<u>19,618,446</u>	<u>19,622,412</u>	<u>3,966</u>
Disbursements				
Current:				
Instruction				
Regular	10,764,839	10,819,345	9,920,634	898,711
Special	2,059,570	2,065,814	2,144,434	(78,620)
Vocational	646,060	650,027	635,717	14,310
Other	0	0	39	(39)
Support Services				
Pupil	989,179	994,562	937,877	56,685
Instructional Staff	1,093,972	1,097,591	1,005,487	92,104
Board of Education	206,251	199,927	154,295	45,632
Administration	1,687,320	1,702,297	1,702,692	(395)
Fiscal	383,702	391,268	388,818	2,450
Business	192,054	193,538	172,009	21,529
Operation and Maintenance of Plant	2,000,311	2,056,665	2,010,387	46,278
Pupil Transportation	478,248	485,447	518,722	(33,275)
Central	259,232	261,042	272,949	(11,907)
Operation of Non-Instructional Services	8,969	8,969	10,321	(1,352)
Extracurricular Activities	366,281	345,307	339,908	5,399
Capital Outlay	7,116	7,116	200	6,916
<i>Total Disbursements</i>	<u>21,143,104</u>	<u>21,278,915</u>	<u>20,214,489</u>	<u>1,064,426</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,587,322)</u>	<u>(1,660,469)</u>	<u>(592,077)</u>	<u>1,068,392</u>
Other Financing Sources (Uses)				
Operating Transfers Out	(117,205)	(101,090)	(92,205)	8,885
Refund of Prior Year Expenditures	(25,000)	(532)	0	532
<i>Total Other Financing Sources (Uses)</i>	<u>(142,205)</u>	<u>(101,622)</u>	<u>(92,205)</u>	<u>9,417</u>
<i>Net Change in Fund Balances</i>	<u>(1,729,527)</u>	<u>(1,762,091)</u>	<u>(684,282)</u>	<u>1,077,809</u>
<i>Fund Balances - Beginning of Year</i>	3,729,901	3,729,901	3,729,901	0
<i>Prior Year Encumbrances Appropriated</i>	<u>61,549</u>	<u>61,549</u>	<u>61,549</u>	<u>0</u>
<i>Fund Balances - End of Year</i>	<u>\$ 2,061,923</u>	<u>\$ 2,029,359</u>	<u>\$ 3,107,168</u>	<u>\$ 1,077,809</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
Assets	
Cash and Cash Equivalents	\$ 431,979
<i>Total Assets</i>	<u>\$ 431,979</u>
Net Assets	
Unrestricted	\$ 431,979
<i>Total Net Assets</i>	<u>\$ 431,979</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Governmental Activities
	Internal Service
Operating Receipts	
Charges for Services	\$ 3,064,810
<i>Total Operating Receipts</i>	<u>3,064,810</u>
 Operating Disbursements	
Claims	3,051,907
<i>Total Operating Disbursements</i>	<u>3,051,907</u>
 <i>Operating Income</i>	<u>12,903</u>
 Non-Operating Receipts	
Interest	4,631
<i>Total Non-Operating Receipts</i>	<u>4,631</u>
 <i>Change in Net Assets</i>	17,534
 <i>Net Assets - Beginning of Year</i>	414,445
 <i>Net Assets - End of Year</i>	\$ 431,979

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	\$ 61,672	\$ 108,921
<i>Total Assets</i>	<u>\$ 61,672</u>	<u>\$ 108,921</u>
Net Assets		
Restricted:		
Held in Trust for Scholarships	\$ 61,672	\$ 0
Unrestricted	<u>0</u>	<u>108,921</u>
<i>Total Net Assets</i>	<u>\$ 61,672</u>	<u>\$ 108,921</u>

See accompanying notes to the basic financial statements.

Bellefontaine City School District
Logan County
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
Additions	
Interest	\$ 3,174
<i>Total Additions</i>	3,174
Deductions	
Payments in Accordance with Trust Agreements	1,500
<i>Total Deductions</i>	1,500
<i>Change in Net Assets</i>	1,674
<i>Net Assets - Beginning of Year</i>	59,998
<i>Net Assets - End of Year</i>	\$ 61,672

See accompanying notes to the basic financial statements.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Bellefontaine City School District (the District) is organized under Section 2 and 3, Article VI of the Constitution of the state of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms by the voters of the District.

The District serves an area of approximately 31 square miles in Logan County, including all of the City of Bellefontaine, Ohio, and portions of surrounding townships.

The District is the 174th largest in the state of Ohio (among 613 school districts) in terms of enrollment. It currently operates four elementary schools, one middle school and one comprehensive high school. The District is staffed by 128 non-certificated employees, 224 certificated employees to provide services to approximately 2,715 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with three significant types of organizations including three jointly governed organizations, one joint venture, and one insurance purchasing pool. These organizations include the Ohio Hi-Point Career Center, West Central Ohio Special Education Regional Resource Center, the Logan County Education Foundation, the Joint Recreation District (Blue Jacket Park) and the Sheakley Group Worker's Compensation Group Rating Plan. These organizations are presented in Notes 11, 12 and 13 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation

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

1. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

2. Fund Financial Statements

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

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting

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

1. Governmental Funds:

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's major funds are the General Fund and the Bond Retirement Fund.

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 to the District for any purpose provided it is expended and transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

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

2. Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The internal service fund is used to account for the financing of goods and services provided by one department or agency to other department or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

3. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for programs that provide college scholarships for students after graduation. Agency funds are custodial in nature (cash equals net assets) and do not involve measurement of results of operations. The District's agency funds account for various student-managed activities.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the object level within the General Fund and at the function and object level within all other funds are made by the District Treasurer.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Investments

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

During fiscal year 2006, investments were limited to STAR Ohio and repurchase agreements. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio Statutes, the Board of Education has by resolution specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$159,524, which includes interest assigned from other District funds.

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets represent amounts required by State statute required to be set aside for the purchase of textbooks and to create a reserve for budget stabilization. Restricted assets also include unspent resources restricted for the purchase of buses.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets. Depreciation is not recorded on these capital assets.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

I. Long-term Debt

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

J. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

K. Inventory

The School District reports disbursements for inventory when paid. These items are not reflected as assets in the accompanying financial statements.

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

M. Equity Classifications

Government-wide Statements - 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 and regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specific purposes. Unrestricted net assets are all other net assets that are not restricted.

Fund Financial Statements – Governmental fund equity is classified as fund balance. The District records reservations for portions of fund balances which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure in future periods. Fund balance reserves are established for encumbrances.

N. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 financial statements.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Receipts and Disbursements

Program Receipts – In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the District's taxpayers are reported as program receipts. The District has the following program receipts: charges for services and sales, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Disbursements – Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 46, "Net Assets Restricted by Enabling Legislation". GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. At June 30, 2006, none of the District's net assets were restricted by enabling legislation. The implementation of this GASB Statement did not have an effect on the financial statements of the District.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DEPOSITS AND INVESTMENTS (continued)

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 or Ohio local governments;
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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time

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 School 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 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District's carrying balance as June 30, 2006 was \$3,421,673 which includes \$319 of undeposited cash on hand. At year end, \$3,138,624 of the District's bank balance of \$3,648,926 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. \$510,302 of the bank balance was covered by federal depository insurance.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

<u>Investment Type</u>	<u>Carrying and Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>	<u>% of Total Portfolio</u>
Repurchase Agreements	\$821,000	\$821,000	44.27%
Money Market	814,025	814,025	43.89%
STAR Ohio	219,598	219,598	11.84%
Total Investments	\$1,854,623	\$1,854,623	100.00%

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk

STAR Ohio and the money market account carry a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

The District places no limit on the amount it may invest in any one issuer.

5. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenues received in calendar year 2006 represent the collection calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due January 20 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. 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.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2006

5. PROPERTY TAXES (continued)

The District receives property taxes from Logan 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$234,057,030	81%	\$236,347,780	85%
Public Utility Personal	9,350,630	3%	9,159,650	3%
Tangible Personal Property	45,656,676	16%	33,987,853	12%
Total	\$289,064,336	100%	\$279,495,283	100%
Tax rate per \$1,000 of assessed valuation	\$48.83		\$48.63	

6. RISK MANAGEMENT

A. Public Liability

The District is exposed to various risks related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles.

Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Health Care Benefits

The District has established a Self-Insurance Fund in the Internal Service Fund Type to account for and finance its uninsured risks of loss. Under this program, the Self-Insurance Fund provides coverage for up to a maximum of \$75,000 per claim per employee. The District purchases commercial insurance for claims in excess of coverage provided by this fund and for other risks of loss including annual aggregate stop losses coverage for annual claims paid. Settled claims have not exceeded this commercial insurance coverage in any of the past three fiscal years.

C. Workers' Compensation

The District participates in the Sheakley Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of the Sheakley Group provides administrative, cost control, and actuarial services to the Plan.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. RISK MANAGEMENT (continued)

D. Self Insurance

The District is also self-insured for employee health care benefits. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from interfund rates that are charged based on claims approved by the claims administrator. A comparison of Self Insurance Fund cash balance and estimated liability as of June 30 follows:

	<u>2006</u>	<u>2005</u>
Cash	\$431,979	\$414,445
Estimated Liabilities	\$456,744	\$448,769

Estimated liabilities are based on a calculation of fiscal year paid claims multiplied times a computation factor.

7. DEFINED BENEFIT PENSION PLAN

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 E. Broad Street, Columbus, OH 43215-3371.

New members have a choice of three retirement plans - a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP) and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The CP offers features of both the DCP and the DBP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005 (the latest information available), plan members were required to contribute 10 percent of their annual covered salaries and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

7. DEFINED BENEFIT PENSION PLAN (continued)

The District's required contributions for pension obligations to the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,648,988, \$1,624,238, and \$1,405,727 respectively; 100 percent has been contributed for fiscal year 2006, 2005 and 2004.

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute at an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$424,548, \$279,986, and \$248,554, respectively.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005 (the latest information available). For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

8. POST-EMPLOYMENT BENEFITS (continued)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. 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.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. 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 2005, the minimum pay has been established as \$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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Expenses for health care at June 30, 2005 were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151.

The number of participants currently receiving health care benefits is approximately 58,123.

9. DEBT OBLIGATIONS

All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, 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 these liabilities are recorded as disbursements in the Debt Service Fund.

The source of payment is derived from current 2.70 mill and current 2.60 mill bonded debt facilities tax levies.

The following is a description of the District's bonds outstanding as of June 30, 2006:

	Principal Outstanding 6/30/05	Additions	Deductions	Principle Outstanding 6/30/06	Amount Due Within One Year
1993 Advanced Refunding Bonds Rate 6.87%	\$ 763,886	\$ 0	\$ 144,618	\$619,268	\$ 132,007
1999 Advance Refunding Bonds Rate 4.7 – 4.9%	1,105,000	0	190,000	915,000	200,000
2005 Advance Refunding Bonds Rate 5.0 – 5.5%	7,475,000	0	130,000	7,345,000	0
Energy Conversation Loan	90,000	0	90,000	0	0
Total Debt Obligation	\$ 9,433,886	\$ 0	\$ 554,618	\$ 8,879,268	\$ 332,007

During 2006, the District deposited into escrow \$650,200 per the terms of the 2005 Advance Refunding Bond Agreement for the repayment of refunded bonds.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

9. DEBT OBLIGATIONS (continued)

1. 1993 Advanced Refunding Bond Issue \$4,923,935

In December 1993, the District issued \$4,923,935 bonds for the purpose of renovating the middle school, furnishing and equipping the same and improving the site thereof, and removing asbestos at various buildings. The bonds were issued for an eighteen-year period with final maturity at December 1, 2011. The bond issue consisted of \$4,000,000 of Current Interest Serial Bonds with interest rates ranging from 2.65 to 4.40 percent and \$923,935 of Capital Appreciation Serial Bonds with stated interest rates ranging from 10.3 to 10.4 percent.

The Current Interest Serial Bonds will bear interest, payable on June 1 and December 1 of each year.

The Capital Appreciation Bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The Capital Appreciation Bonds will mature in fiscal years 2007 to 2012. The maturity amount of the bonds is \$3,900,000.

2. 1999 School Facilities Construction and Improvement Bonds

On June 15, 1999, the District issued \$5,215,000 in serial bonds. The serial bonds have interest rates from 3.75 to 5.75 percent. The serial bonds mature each year beginning in 2000 and ending 2009

3. 2005 General Obligation Advance Refunding Bonds

In April 2005, the District issued \$7,475,000 in voted general obligation bonds for the purpose of refunding a portion of the 1999 School Improvement Bonds. The refunding bond issue consists of \$3,760,000 in serial bonds and \$3,715,000 in term bonds. The serial bonds have interest rates at 5.0 percent. Term bonds have interest rates at 5.5 percent.

4. Energy Conservation Loan

In December 1995, the District obtained \$730,000 in a long term note transaction for the purpose of purchasing and installing energy conservation measures. This House Bill 264 energy conversation note was repaid in full during fiscal year 2006.

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

Year(s) Ending June 30	Principal on General Obligation Bonds	Interest on General Obligation Bonds	Total
2007	\$332,007	\$788,208	\$1,120,215
2008	341,870	783,245	1,125,115
2009	346,361	782,534	1,128,895
2010	347,882	784,068	1,131,950
2011	353,528	780,672	1,134,200
2012-2016	1,682,620	2,068,880	3,751,500
2017-2021	2,210,000	1,199,750	3,409,750
2022-2026	2,645,000	550,413	3,195,413
2027	620,000	17,050	637,050
Total	\$8,879,268	\$7,754,820	\$16,634,088

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

9. DEBT OBLIGATIONS (continued)

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets for the defeased bonds are not included in the District's financial statements. On June 30, 2006, \$7,962,111 of bonds outstanding are considered defeased.

10. SET ASIDE REQUIREMENTS

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Senate Bill 345 eliminated the requirement to set aside additional reserves for budget stabilization. The reserve for budget stabilization balance represents the set aside required for Bureau of Workers' Compensation refunds.

For the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>
Set-Aside Cash Balance as of June 30, 2005	\$ 275,911	(\$ 649,259)	\$ 80,693
Required Set-Aside	420,944	420,944	0
Qualifying Expenditures	(271,592)	(796,970)	0
Total	<u>\$ 425,263</u>	<u>(\$1,025,285)</u>	<u>\$ 80,693</u>
Amount to carry forward to fiscal year 2007	<u>\$ 425,263</u>	<u>\$ 0</u>	<u>\$ 80,693</u>

11. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Hi-Point Career Center

The Ohio Hi-Point Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Career Center, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311-9594.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

11. JOINTLY GOVERNED ORGANIZATIONS

C. Logan County Education Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Logan County Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Adelsberger, who serves as Financial Advisor, 2626 County Road 18, Bellefontaine, Ohio 43311.

12. JOINT VENTURE

The Joint Recreation District (JRD) was established June 25, 1984. The JRD is operated by a seven member Board consisting of three representatives from both the Bellefontaine City School District and the City of Bellefontaine.

The remaining member is selected by the six appointed Board members. The JRD operates the Blue Jacket Park which is adjacent to the Bellefontaine City School District and for which the District owns the land. The operating budget for the JRD is passed by the City of Bellefontaine and is submitted to the JRD Board. To obtain financial information write to the City of Bellefontaine, Tim Decker, who serves as Auditor, at 135 North Detroit Street, Bellefontaine, Ohio 43311.

13. INSURANCE POOLS

The Sheakley Group Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Sheakley Group Workers' Compensation Group Rating Plan (the Plan) was established through the Sheakley Group as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the Plan.

14. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

B. Litigation

There are currently no matters in litigation with the District as defendant.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

15. INTERFUND BALANCES

Interfund Transfers

Transfers between funds during the year ended June 30, 2006 were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General	\$ 0	\$ 92,205
Bond Retirement	92,205	0
Other Governmental Funds	2,983	2,983
Total	<u>\$ 95,188</u>	<u>\$ 95,188</u>

16. ACCOUNTABILITY

At June 30, 2006, the Local Grants, Ohio Reads, Title III and Title II-A special revenue funds had deficit fund balances, in the amounts of \$27,686, \$6,442, \$3,209, and \$43,540 respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit fund balances were created at June 30, 2006 as a result of late disbursements from the grant authorities.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue
Lima, Ohio 45805-1130
PH 419-331-1040
FAX 419-331-1120
www.reacpa.com

We're Ready For Your Future

February 12, 2007

The Board of Education
Bellefontaine City School District
Bellefontaine, Ohio 43311

INDEPENDENT AUDITORS' 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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bellefontaine City School District (the District) as of and for the year ended June 30, 2006, which collectively comprises Bellefontaine City School District's basic financial statements, and have issued our report hereon dated February 12, 2007 wherein we noted the District was using a comprehensive basis of accounting other than generally accepted accounting principles. 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 the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of the District in a separate letter dated February 12, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying Schedule of Findings as item 2006-01 and 2006-02, and. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 12, 2007.

This report is intended solely for the information and use of the Board of Trustees, Auditor of State of Ohio, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

Cambridge Columbus Coshocton Dublin Lima Marietta Millersburg Medina Mentor New Philadelphia Wooster

An Independent Member Firm of Moore Stephens International

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue
Lima, Ohio 45805-1130
PH 419-331-1040
FAX 419-331-1120
www.reacpa.com

We're Ready For Your Future

February 12, 2007

The Board of Education
Bellefontaine City School District
Bellefontaine, Ohio 43311

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Hea & Associates, Inc.

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

Schedule of Federal Receipts and Disbursements
For Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grantor's Number	Federal Receipts	Federal Disbursements	Non-Cash Transactions
U.S. DEPARTMENT OF EDUCATION					
(Passed through Ohio Department of Education)					
Title I - Grants to Local Education '04-'05	84.010	0405	\$ 79,808	\$ 109,892	\$ 0
Title I - Grants to Local Education '05-'06	84.010	0506	570,992	530,188	0
			<u>650,800</u>	<u>640,080</u>	<u>0</u>
Special Education Grants to State '04-'05	84.027	0405	59,702	89,361	0
Special Education Grants to State '05-'06	84.027	0506	605,023	556,771	0
Special Education Grants to State	84.027	0610	48,690	50,000	0
			<u>713,415</u>	<u>696,132</u>	<u>0</u>
Safe & Drug Free Schools and '04-'05	84.186	0405	3,208	3,334	0
Safe & Drug Free Schools and '05-'06	84.186	0506	4,845	5,637	0
			<u>8,053</u>	<u>8,971</u>	<u>0</u>
Innovative Educational Program '04-'05	84.298	0405	0	1,575	0
Innovative Educational Program '05-'06	84.298	0506	10,885	10,788	0
			<u>10,885</u>	<u>12,363</u>	<u>0</u>
Technology Literacy Challenge	84.318	0501	365	778	0
Technology Literacy Challenge	84.318	0601	16,557	16,742	0
			<u>16,922</u>	<u>17,520</u>	<u>0</u>
Advanced Placement Program	84.330	1211	260	260	0
Improving Teacher Quality State '04-'05	84.367	0405	115,352	36,066	0
Improving Teacher Quality State '05-'06	84.367	0506	76,429	119,969	0
			<u>191,781</u>	<u>156,035</u>	<u>0</u>
State Children's Health Insurance	93.767	0000	10,262	10,262	0
Medical Assistance Program	93.778	0000	92,043	92,043	0
Total Department of Education			<u>1,694,421</u>	<u>1,633,666</u>	<u>0</u>
U.S. DEPARTMENT OF AGRICULTURE					
(Passed through Ohio Department of Education)					
Food Donation	10.550		53,438	0	52,777
Nutrition Cluster:					
School Breakfast Program	10.553		84,143	86,393	0
National School Lunch Program	10.555		302,225	302,225	0
			<u>386,368</u>	<u>388,618</u>	<u>0</u>
Total Department of Agriculture			<u>439,806</u>	<u>388,618</u>	<u>52,777</u>
Total Federal Financial Assistance			<u>\$ 2,134,227</u>	<u>\$ 2,022,284</u>	<u>\$ 52,777</u>

**BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I #84.010 Special Education Grants to State #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2006-001 Ohio Administrative Code Section 117-2-103 (repeat of 2005-001)

Ohio Admin. Code Section 117-2-03 states that the School District is to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2006, the District reported its financial statements on the cash basis of accounting with a GASB 34 presentation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, fund liabilities, equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006

To help provide the users with more meaningful financial statements, the District should prepare their financial statements according to generally accepted accounting principles.

Finding 2006-002 Ohio Revised Code Section 5705.39 (repeat of 2005-002)

Ohio Revised Code states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses of another fund. The District had negative cash fund balances throughout the year, with the following negative cash balances as of June 30, 2006:

Local Grants	\$ (27,686)
Ohio Reads	(6,442)
Title III	(3,209)
Title II-A Improving Teacher Quality	(43,540)

The District should implement monitoring procedures to help identify those funds that may develop negative fund balances. Money should then be transferred or advanced into those funds to help prevent negative fund balances.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None were noted

BELLEFONTAINE CITY SCHOOL DISTRICT
LOGAN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	ORC Sec. 117.38 & OAC Sec. 117-2-03 (B) - Reporting on the cash-basis rather than the GAAP basis	No	Repeated as Finding 2006-001
2005-002	ORC Sec. 5705.10 - Negative cash fund balance	No	Repeated as Finding 2006-002
2005-003	ORC Sec. 5705.39 - Available resources less than appropriations	Yes	



Mary Taylor, CPA
Auditor of State

BELLEFONTAINE CITY SCHOOL DISTRICT

LOGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2007**