

**BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

REGULAR AUDIT

JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 26, 2007

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**BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

TABLE OF CONTENTS

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

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INDEPENDENT ACCOUNTANTS' REPORT

February 15, 2007

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Bethel Local School District, Miami County, Ohio (the District), as of and for the year ended June 30, 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of Bethel Local School District, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

BETHEL LOCAL SCHOOL DISTRICT

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

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

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

Overall:

- Total net assets increased \$194,438 which represents a 4 percent increase from fiscal year 2005. The change in net assets is less than the prior year due to the District constructing a wastewater treatment facility due to an EPA mandate. The District did not issue any debt for the construction, but rather used monies set aside from prior years.
- General revenues accounted for \$6.8 million or 87 percent of total revenue. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions account for \$1.0 million or 13 percent of total revenues of \$7.8 million.
- Of the School District's \$7.6 million in expenses, only \$1.0 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$6.6 million.
- The General Fund and Permanent Improvement Fund, the only major funds, had \$6.6 million and \$0.4 million in revenues, respectively, and \$6.6 million and \$0.7 million in expenditures, respectively, representing 89 percent of the total governmental funds revenues and expenditures. The General Fund's balance increased \$18,728 and the Permanent Fund's balance decreased \$239,823 from fiscal year 2005.

Using this Annual Financial Report

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

BETHEL LOCAL SCHOOL DISTRICT

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The School District uses many funds to account for a multitude of financial transactions. The fund financial statements provide more detailed information about the School District's most significant funds. Therefore, only the General Fund and Permanent Improvement Fund are presented separate from the other governmental funds.

BETHEL LOCAL SCHOOL DISTRICT

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

Governmental Funds

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

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

TABLE 1
NET ASSETS (in 000's)

	<u>2006</u>	<u>2005</u>
Assets		
Current and Other Assets	\$ 6,723	\$ 6,924
Capital Assets	<u>3,753</u>	<u>3,298</u>
Total Assets	<u>10,476</u>	<u>10,222</u>
Liabilities		
Long-term Liabilities	1,303	1,349
Other Liabilities	<u>3,827</u>	<u>3,790</u>
Total Liabilities	<u>5,130</u>	<u>5,139</u>
Net Assets		
Invested in Capital Assets, Net of Debt	2,797	2,323
Restricted	644	979
Unrestricted	<u>1,905</u>	<u>1,849</u>
Total Net Assets	<u>\$ 5,346</u>	<u>\$ 5,151</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2006, the School District's net assets were \$5.3 million. Of that amount, approximately \$2.8 million was invested in capital assets, net of debt related to those assets. Another \$0.6 million was subject to external restrictions upon its use. The remaining \$1.9 million was unrestricted and available for future use as directed by the Board of Education and the School District's Administration.

BETHEL LOCAL SCHOOL DISTRICT

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

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

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

	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 669	\$ 791
Operating Grants and Contributions	323	333
Capital Grants and Contributions	53	60
General Revenues:		
Property Taxes	3,353	3,526
Grants and Entitlements	3,161	3,176
Other	274	178
Total Revenues	<u>7,833</u>	<u>8,064</u>
Program Expenses		
Instruction	3,926	3,742
Support Services:		
Pupils and Instructional Staff	482	460
Board of Education, Administration, Fiscal and Business	1,005	921
Plant Operation and Maintenance	689	535
Pupil Transportation	601	625
Central	145	143
Operation of Non-Instructional Services	506	383
Extracurricular Activities	193	373
Unallocated Depreciation	44	32
Interest and Fiscal Charges	48	48
Total Expenses	<u>7,639</u>	<u>7,262</u>
Increase in Net Assets	194	802
Net Assets at Beginning of Year - Restated	<u>5,151</u>	<u>4,349</u>
Net Assets at End of Year	<u>\$ 5,345</u>	<u>\$ 5,151</u>

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 43 percent of revenues for governmental activities for the Bethel Local School District for fiscal year 2006. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 45 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2006.

BETHEL LOCAL SCHOOL DISTRICT

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

For fiscal year 2006, total revenue reported by District decreased 2.8 percent or \$0.2 million. The District experienced decreases in property tax revenue and various charges for services compared to the prior year with no corresponding increases in other revenue sources.

As revenues decreased from the prior year, expenses increased. Total expenses reported for fiscal year 2006 were \$0.3 million higher than the prior year. Expenses increased primarily in instruction, plant operation and maintenance and operation of non-instructional services. The increase in plant operation and maintenance is due to the District providing improvement projects to its buildings that could not be delayed any longer. The District was also required by the EPA to make improvements to a wastewater treatment facility, the expenses for which were accounted for in non-instructional services.

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

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

	2006		2005 Restated	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	3,926	\$ (3,542)	3,742	\$ (3,254)
Support Services:				
Pupils and Instructional Staff	482	(357)	460	(368)
Board of Education, Administration, Fiscal and Business	1,005	(1,004)	921	(921)
Plant Operation and Maintenance	689	(689)	535	(532)
Pupil Transportation	601	(601)	625	(572)
Central	145	(131)	143	(129)
Operation of Non-Instructional Services	506	(103)	383	(29)
Extracurricular Activities	193	(75)	373	(201)
Unallocated Depreciation	44	(44)	32	(32)
Interest and Fiscal Charges	48	(48)	48	(48)
Total Expenses	<u>\$ 7,639</u>	<u>\$ (6,594)</u>	<u>\$ 7,262</u>	<u>\$ (6,086)</u>

In fiscal year 2006, the District reported \$1.0 million of program specific revenue compared with the \$1.2 million reported in the prior year. Decreases in revenue received from property taxes and charges for services comprise the majority of the decrease. For fiscal year 2006, general revenues of the District were used to pay 86.3 percent of total expenses incurred while 83.8 percent of fiscal year 2005 expenses were funded with general revenues.

BETHEL LOCAL SCHOOL DISTRICT

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

The School District's Funds

On the modified accrual basis of accounting, the School District's major governmental funds had ending fund balances totaling \$2.5 million, or 94 percent of the total fund balance of all governmental funds.

The School District's primary operating fund, the General Fund, ended the year with revenues and other financing sources exceeding expenditures by \$18,728. The unreserved, undesignated ending fund balance of the General Fund (\$1.5 million) represents approximately 23 percent of the total expenditures reported in the General Fund.

The School District's other major fund, the Permanent Improvement Fund reported a decrease in fund balance of \$239,823. The decrease is primarily the result of the School District constructing a waste water treatment facility using monies set aside in prior years.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District amended its general fund budget several times, none significant. Budgetary adjustments were required due to unanticipated revenues from federal grants. Other revenue and expenditure line items were also reviewed.

For the General Fund, budget basis revenue was \$ 6.0 million as compared to the original and final budget estimates of \$5.3 million. This difference included intergovernmental revenues initially budgeted at \$2.5 million with budget basis revenues coming in at \$3.1 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$5.9 million, \$.1 million below revenues, as well as \$.1 million above original budget estimates and \$75,471 below revised budget estimates.

BETHEL LOCAL SCHOOL DISTRICT

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

Capital Assets

At the end of fiscal year 2006, the School District had \$3.7 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2006 balances compared to 2005:

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

	2006	2005
Land	\$ 1,165	\$ 1,165
Land Improvements	372	347
Building and Improvements	3,028	2,609
Equipment	1,958	1,897
Vehicles	805	696
Less: Accumulated Depreciation	(3,576)	(3,416)
Total	<u>\$ 3,752</u>	<u>\$ 3,298</u>

Overall capital assets increased approximately \$450,000 from fiscal year 2005. The increase is primarily due to the acquisition of buses and the construction of a waste water treatment facility. See Note 9 to the financial statements for additional information.

For fiscal year 2000 and forward, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2006, this amounts to \$133,044 for each set aside requirement. When fiscal year 2006 qualifying disbursements for the capital improvements and textbooks were netted against the cumulative set aside amounts for the year, no set aside for capital improvements or textbooks remained.

Debt Administration

At June 30, 2006, the School District had a 30 year capital lease balance outstanding of \$956,000. The capital lease was used in fiscal year 2004 to purchase 132 acres of land adjacent to the school district's property. At June 30, 2006 the School District's overall legal debt margin was \$10.8 million with an unvoted debt margin of \$.1 million. See Note 14 to the basic financial statements for additional information.

BETHEL LOCAL SCHOOL DISTRICT

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

For the Future

The School District faces many challenges as the school buildings age. Estimates indicate that student enrollment is projected to double within the next 10 years. In October of 2006 the district purchased its third Modular unit for much needed classroom space.

In May 2002, a group of the School District's staff and community members began meeting to assess the school building conditions. Their findings focused on a long-term solution not a short-term fix. The School District is experiencing overcrowding due to enrollment growth, increases in technology and state and federal mandates.

In the summer of 2003, 132 acres of land located adjacent to the existing campus became available for sale. The district purchased this land in the winter of 2004. In the spring of 2004, community meetings were held with citizens of Bethel Township to review core focus group's findings and to receive feedback on what should be our community's course of action. Over 70% of the people who completed a survey distributed during the meetings recommended the School District build a new high school. Unfortunately, the School District has made three unsuccessful attempts to pass a bond issue, the monies from which would have been used to build a new high school.

The School District will place a four year Emergency Renewal Levy on the ballot in November of 2006 in order to maintain current operations.

With the passage of HB66, the School District is one of four schools in Miami County that received no increase in State Funding for fiscal year 2006 and fiscal year 2007. The School District continues to monitor its spending patterns very closely and has cut spending in some areas.

Contacting the School District's Financial Management

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

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents and Investments	\$ 3,069,167
Receivables:	
Property and Other Taxes	3,606,017
Accounts	1,632
Inventory of Supplies and Materials	9,677
Inventory Held for Resale	3,265
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	33,271
Non-Depreciable Capital Assets	1,165,600
Depreciable Capital Assets, Net	2,587,263
Total Assets	10,475,892
Liabilities:	
Accounts Payable	60,908
Accrued Wages and Benefits Payable	450,537
Compensated Absences	18,328
Intergovernmental Payable	153,733
Unearned Revenue	3,143,447
Long Term Liabilities:	
Due Within One Year	65,000
Due in More Than One Year	1,238,323
Total Liabilities	5,130,276
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,796,865
Restricted for:	
Debt Service	616
Capital Projects	638,820
Other Purpose	3,907
Unrestricted	1,905,408
Total Net Assets	\$ 5,345,616

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services & sales</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 2,940,328	\$ 208,080	\$ 25,173	\$ -	\$ (2,707,075)
Special	805,521	45,351	93,005	-	(667,165)
Other	180,940	13,338	-	-	(167,602)
Support Services:					
Pupils	239,442	-	120,094	-	(119,348)
Instructional Staff	242,876	-	5,293	-	(237,583)
Board of Education	25,768	-	-	-	(25,768)
Administration	665,342	-	-	-	(665,342)
Fiscal	264,556	-	-	-	(264,556)
Business	48,954	-	-	-	(48,954)
Operation and Maintenance of Plant	689,403	-	494	-	(688,909)
Pupil Transportation	600,964	-	-	-	(600,964)
Central	144,674	-	14,000	-	(130,674)
Operation of Non-Instructional Services	505,642	284,634	65,482	52,640	(102,886)
Extracurricular Activities	193,216	117,993	-	-	(75,223)
Interest and Fiscal Charges	47,918	-	-	-	(47,918)
Unallocated Depreciation *	43,822	-	-	-	(43,822)
Total Governmental Activities	<u>\$ 7,639,366</u>	<u>\$ 669,396</u>	<u>\$ 323,541</u>	<u>\$ 52,640</u>	<u>(6,593,789)</u>
General Revenues:					
					2,955,700
					397,440
					3,161,405
					157,945
					115,737
					<u>6,788,227</u>
					194,438
					<u>5,151,178</u>
					<u>\$ 5,345,616</u>

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

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General Fund</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents and Investments	\$ 2,258,966	\$ 607,212	\$ 202,989	\$ 3,069,167
Receivables:				
Taxes	3,183,530	422,487	-	3,606,017
Accounts	1,632	-	-	1,632
Inventory of Supplies and Materials	8,686	-	991	9,677
Inventory Held for Resale	-	-	3,265	3,265
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	33,271	-	-	33,271
Total Assets	<u>\$ 5,486,085</u>	<u>\$ 1,029,699</u>	<u>\$ 207,245</u>	<u>\$ 6,723,029</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 36,979	\$ 15,255	\$ 8,674	\$ 60,908
Accrued Wages and Benefits	437,791	-	12,746	450,537
Compensated Absences Payable	18,328	-	-	18,328
Intergovernmental Payable	137,876	-	15,857	153,733
Deferred Revenue	2,922,879	389,039	-	3,311,918
Total Liabilities	<u>3,553,853</u>	<u>404,294</u>	<u>37,277</u>	<u>3,995,424</u>
<u>Fund Balances:</u>				
<u>Reserved for:</u>				
Encumbrances	97,568	81,541	23,002	202,111
Supplies Inventory	8,686	-	4,256	12,942
Property Taxes	249,493	31,848	-	281,341
Budget Stabilization	33,271	-	-	33,271
<u>Unreserved, Undesignated:</u>				
General Fund	1,543,214	-	-	1,543,214
Special Revenue Funds	-	-	142,094	142,094
Capital Projects Funds	-	512,016	-	512,016
Debt Service Funds	-	-	616	616
Total Fund Balances	<u>1,932,232</u>	<u>625,405</u>	<u>169,968</u>	<u>2,727,605</u>
Total Liabilities and Fund Balances	<u>\$ 5,486,085</u>	<u>\$ 1,029,699</u>	<u>\$ 207,245</u>	<u>\$ 6,723,029</u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2006

Total Governmental Fund Balances:		\$	2,727,605
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,752,865
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.			168,471
Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(347,325)		
Capital leases payable	(956,000)		
Total			<u>(1,303,325)</u>
Net Assets of Governmental Activities		\$	<u><u>5,345,616</u></u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,987,170	\$ 399,999	\$ -	\$ 3,387,169
Intergovernmental	3,161,405	52,640	372,538	3,586,583
Interest	157,646	-	299	157,945
Tuition and Fees	266,769	-	104,886	371,655
Charges for Services	-	-	179,748	179,748
Extracurricular Activities	-	-	117,993	117,993
Miscellaneous	27,567	-	88,172	115,739
Total Revenues	6,600,557	452,639	863,636	7,916,832
Expenditures:				
Current:				
Instruction:				
Regular	2,831,380	1,265	51,404	2,884,049
Special	621,900	-	183,621	805,521
Other Instruction	180,940	-	-	180,940
Support Services:				
Pupils	136,708	-	108,824	245,532
Instructional Staff	216,044	-	14,434	230,478
Board of Education	25,768	-	-	25,768
Administration	678,045	2,183	-	680,228
Fiscal	257,499	6,748	-	264,247
Business	53,185	-	233	53,418
Plant Operation and Maintenance	652,708	39,460	-	692,168
Pupil Transportation	551,709	123,670	-	675,379
Central	129,163	-	20,770	149,933
Non-Instructional Services	2,690	519,136	480,623	1,002,449
Extracurricular Activities	181,514	-	-	181,514
Debt Service:				
Principal Retirement	20,000	-	-	20,000
Interest and Fiscal Charges	47,918	-	-	47,918
Total Expenditures	6,587,171	692,462	859,909	8,139,542
Excess of Revenues Over(Under) Expenditures	13,386	(239,823)	3,727	(222,710)
Other Financing Sources (Uses):				
Transfers-In	5,342	-	-	5,342
Transfers-Out	-	-	(5,342)	(5,342)
Total Other Financing Sources (Uses)	5,342	-	(5,342)	-
Change in Fund Balance	18,728	(239,823)	(1,615)	(222,710)
Fund Balance at Beginning of Year - Restated	1,913,504	865,228	171,583	2,950,315
Fund Balance at End of Year	\$ 1,932,232	\$ 625,405	\$ 169,968	\$ 2,727,605

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	(222,710)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital asset additions	678,299	
Current year depreciation	<u>(218,580)</u>	
Total		459,719
<p>Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each sale:</p>		
Loss on Assets Sold		(5,734)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
		(83,028)
<p>Repayment of long-term obligations is reported as an expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets.</p>		
Capital Lease		20,000
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Compensated absences payable		<u>26,191</u>
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>194,438</u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
Revenues:				
Taxes	\$ 2,478,279	\$ 2,478,279	\$ 2,472,253	\$ (6,026)
Intergovernmental	2,466,225	2,466,225	3,098,774	632,549
Interest	89,600	89,600	159,982	70,382
Tuition and Fees	247,150	247,150	266,487	19,337
Miscellaneous	<u>15,400</u>	<u>15,400</u>	<u>27,567</u>	<u>12,167</u>
Total Revenues	<u>5,296,654</u>	<u>5,296,654</u>	<u>6,025,063</u>	<u>728,409</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,691,692	2,941,692	2,807,839	133,853
Special	544,816	544,816	628,871	(84,055)
Other Instruction	102,998	102,998	179,393	(76,395)
Support Services:				
Pupils	128,621	128,621	135,530	(6,909)
Instructional Staff	188,148	188,148	214,079	(25,931)
Board of Education	24,131	24,132	24,937	(805)
Administration	656,197	656,196	647,618	8,578
Fiscal	290,554	290,554	247,537	43,017
Business	53,094	53,094	52,920	174
Plant Operation and Maintenance	236,612	236,612	148,185	88,427
Pupil Transportation	451,488	451,488	437,803	13,685
Central	123,298	123,298	128,973	(5,675)
Non-Instructional Services	67,918	67,918	67,918	-
Extracurricular Activities	<u>174,075</u>	<u>174,075</u>	<u>186,568</u>	<u>(12,493)</u>
Total Expenditures	<u>5,733,642</u>	<u>5,983,642</u>	<u>5,908,171</u>	<u>75,471</u>
Excess of Revenues Over(Under) Expenditures	<u>(436,988)</u>	<u>(686,988)</u>	<u>116,892</u>	<u>803,880</u>
Other Financing Sources (Uses):				
Transfers-In	<u>-</u>	<u>-</u>	<u>5,342</u>	<u>5,342</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	<u>(436,988)</u>	<u>(686,988)</u>	<u>122,234</u>	<u>809,222</u>
Fund Balance at Beginning of Year	2,001,381	2,001,381	2,001,381	-
Prior Year Encumbrances Appropriated	<u>72,613</u>	<u>72,613</u>	<u>72,613</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,637,006</u>	<u>\$ 1,387,006</u>	<u>\$ 2,196,228</u>	<u>\$ 809,222</u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>PRIVATE PURPOSE TRUST</u>	<u>AGENCY FUND</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 499	\$ 29,825
Investments	<u>73,749</u>	<u>-</u>
Total Assets	<u>\$ 74,248</u>	<u>\$ 29,825</u>
Liabilities:		
Accounts Payable	\$ -	\$ 177
Due to Students	<u>-</u>	<u>29,648</u>
Total Liabilities	<u>-</u>	<u>\$ 29,825</u>
Net Assets	<u>74,248</u>	
Total Net Assets	<u>\$ 74,248</u>	

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2006**

Additions:	
Interest	<u>\$ 3,053</u>
Deductions:	
Operating	<u> 3,851</u>
Change in Net Assets	(798)
Net Assets Beginning of Year	<u> 75,046</u>
Net Assets End of Year	<u><u>\$ 74,248</u></u>

See accompanying notes to the basic financial statements

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Bethel Local School District (the District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1894 through the consolidation of existing land areas and school districts. The District serves an area of approximately 25 square miles. It is located in Miami County, and includes all of the Village of Brandt and portions of Bethel Township. It is staffed by 37 non-certified employees, 56 certificated full-time teaching personnel and 5 administrative employees who provide services to 978 students and other community members. The District currently operates two instructional buildings and one administrative building.

Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District approves the budget, the issuance of debt or the levying of taxes. The District has no component units.

The District is associated with three organizations, which are defined as jointly governed and three insurance purchasing pool. These organizations are discussed in Note 15 and 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pool:

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

General Fund

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

Permanent Improvement Fund

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

D. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

E. Budget Data

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

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Individual fund integrity is maintained through the District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$157,646 which includes the general funds allocation as well as the allocations of all funds not specified in the Board's resolution. The non-major funds also earned interest in the amount of \$299.

G. Inventory

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

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

H. Prepaid Items

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

I. Restricted Assets

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

J. Estimates

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

K. Capital Assets and Depreciation

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

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

L. Interfund Activity

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

M. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated sick leave for all employees after ten years of current service with the District.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due to employees who were retired at June 30, 2006, but were not paid as of that date. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

O. Net Assets

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

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

P. Fund Balance Reserves

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

For fiscal year 2006, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-2. The District also discovered an error in the amount of intergovernmental payable reported in the prior year. The implementation of GASB Technical Bulletin 2004-2 and the correction of the error had the following effect on fund balance previously reported. The implementation of the accounting principle caused a restatement of fund balance but had no effect on net assets.

There were adjustments to intergovernmental payable due to an error in the prior year that caused a restatement to fund balance and net assets.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPAL AND RESTATEMENT OF FUND BALANCE AND NET ASSETS (Continued)

The correction of the error and change in accounting principle had the following effect on fund balance:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Governmental Funds</u>
Fund Balance at June 30, 2005	\$ 1,905,108	\$ 865,228	\$ 153,778	\$ 2,924,114
GASB Technical Bulletin 2004-2	(35,220)	-	(7,208)	(42,428)
Correction of an Error	43,616	-	25,013	68,629
Adjusted Fund Balance at June 30, 2005	<u>\$ 1,913,504</u>	<u>\$ 865,228</u>	<u>\$ 171,583</u>	<u>\$ 2,950,315</u>

The correction of the error caused an increase in net assets at June 30, 2005 from \$5,082,549 to \$5,151,178.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds have fund equity deficits as of June 30, 2006:

	<u>Deficit Fund Equity</u>
Special Revenue:	
Food Service	\$ 16,125
Rotary	306
Title I	65
Class Size Reduction	41

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2007. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

	Net Change in Fund Balance General Fund	
GAAP Basis	\$	18,728
Revenue Accruals		(575,494)
Expenditure Accruals		556,054
Encumbrances		<u>122,946</u>
Budget Basis	\$	<u>122,234</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

The District has no deposit policy for custodial risk beyond the requirements of State statute. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. At year-end, the carrying amount of the District's deposits was \$2,910,260 and the bank balance was \$3,051,363. \$123,633 of the bank balance was covered by federal depository insurance and \$2,927,730 was collateralized with securities held by the pledging financial institution's agent in the District's name.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Investments

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

	Fair Value	Maturity (in months)			Standard & Poor's Rating
		<1	1-6	6-12	
Federal National Mortgage Association	\$ 99,563	\$ -	\$ 99,563	\$ -	AAA
Negotiable Certificates of Deposit	194,327	95,935	-	98,392	N/A
STAR Ohio	<u>2,361</u>	<u>2,361</u>	-	-	AAAm
Total Investments	<u>\$ 296,251</u>	<u>\$ 98,296</u>	<u>\$ 99,563</u>	<u>\$ 98,392</u>	

For an investment, custodial credit risk is the risk that, in the event of the failure of 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. All of the District's investments are held by the counterparty's trust department in the District's name, therefore, are not exposed to custodial credit risk.

At year end, the District's investment in negotiable certificates of deposit and Federal National Mortgage Association comprised 65% and 35%, respectively of the District's investment portfolio.

The District does not have an investment policy beyond the requirements of State statute.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed 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 semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 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, 2003, 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.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 7 - PROPERTY TAXES (Continued)

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.

The District receives property taxes from Miami 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.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$249,493 in the general fund and \$31,848 in the permanent improvement capital projects fund.

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

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

	<u>2006 First Half Collections</u>		<u>2005 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 122,183,540	91.60%	\$ 115,861,780	92.57%
Public Utility	3,678,530	3.26%	3,738,460	2.99%
Tangible Personal Property	<u>5,568,210</u>	<u>5.14%</u>	<u>5,554,460</u>	<u>4.44%</u>
Total Assessed Value	<u>\$ 131,430,280</u>	<u>100%</u>	<u>\$ 125,154,700</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$57.20		\$57.39	

BETHEL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - RECEIVABLES

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

NOTE 9 - CAPITAL ASSETS

	Balance 6/30/05	Additions	Deductions	Balance 6/30/06
<u>Capital Assets, not being depreciated</u>				
Land	\$1,165,600	-	-	\$1,165,600
<u>Capital Assets, being depreciated</u>				
Land Improvements	347,143	24,954	-	372,097
Buildings and Improvements	2,609,059	419,451	-	3,028,510
Furniture and Equipment	1,897,230	112,023	(51,438)	1,957,815
Vehicles	696,215	121,871	(12,813)	805,273
	<u>5,549,647</u>	<u>678,299</u>	<u>(64,251)</u>	<u>6,163,695</u>
<u>Less: Accumulated Depreciation</u>				
Land Improvements	(303,450)	(35,108)	-	(338,558)
Buildings and Improvements	(1,266,480)	(49,242)	-	(1,315,722)
Furniture and Equipment	(1,348,537)	(90,527)	45,704	(1,393,360)
Vehicles	(497,902)	(43,703)	12,813	(528,792)
	<u>(3,416,369)</u>	<u>(218,580)</u> *	<u>58,517</u>	<u>(3,576,432)</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,298,878</u>	<u>459,719</u>	<u>(5,734)</u>	<u>\$ 3,752,863</u>

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 9 - CAPITAL ASSETS (Continued)

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

Instruction:	
Regular	\$ 84,782
Support Services:	
Pupils	796
Instructional Staff	12,994
Administration	1,295
Fiscal	199
Business	1,231
Operation and Maintenance of Plant	10,510
Pupil Transportation	45,110
Central	3,891
Operation of Non-Instructional Services	6,763
Extracurricular Activities	7,187
	<hr/>
	174,758
Unallocated Depreciation	43,822
Total Depreciation Expense	<hr/> <hr/>
	\$ 218,580

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

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted with Cincinnati Insurance Co. for property and contents insurance.

During fiscal year 2006, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 16). The District contracts for automobile liability, education general liability and employee benefits liability with OSP.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 10 - RISK MANAGEMENT (Continued)

Insurance coverage provided includes the following:

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

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

B. Workers' Compensation

For fiscal year 2006, the District participated in the Southwest Ohio Educational Purchasing Council of Worker's Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (see Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving percentage of the GRP.

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

C. Medical Benefits

For fiscal year 2006, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (See Note 16). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 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 a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$138,482, \$196,905, and \$122,463 respectively; 40 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$82,506 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds and the Statement of Net Assets.

B. State Teachers Retirement System

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

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$378,626, \$353,732, and \$339,242 respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,800 made by the District and \$4,249 made by the plan members.

C. Social Security System

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

NOTE 12 – POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$27,045 for fiscal year 2006.

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$47,473.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 215 days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave to a maximum of 54 days for all employees.

B. Health Care Benefits

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/05	Additions	Deductions	Amount Outstanding 6/30/06	Amounts Due in One Year
Compensated Absences	\$ 373,516	\$ 69,558	\$ 95,751	\$ 347,323	\$ 45,000
Capital Lease Payable	976,000	-	20,000	956,000	20,000
Total Governmental Activities	<u>\$ 1,349,516</u>	<u>\$ 69,558</u>	<u>\$ 115,751</u>	<u>\$ 1,303,323</u>	<u>\$ 65,000</u>

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

The capital lease was used to purchase 132 acres of land adjacent to the schools current location with the intent of building new school buildings in the future. Lease payments are made out of the general fund.

The District's overall legal debt margin was \$10,872,725 with an unvoted debt margin of \$131,430 and an energy conservation debt margin of \$1,182,873 at June 30, 2006.

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

Year ended June 30,	
2007	\$ 67,284
2008	67,560
2009	67,745
2010	66,866
2011	66,924
2012-2016	334,753
2017-2021	333,303
2022-2026	330,805
2027-2031	327,555
2032	<u>64,682</u>
Total minimum lease payments	1,727,478
Less: amount representing interest	<u>(771,478)</u>
Present value of minimum lease payments	<u>\$ 956,000</u>

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

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

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. During fiscal year 2006, the District paid \$32,170 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405

Southwestern Ohio Educational Purchasing Cooperative

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the District paid \$1,465 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association

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

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

All member districts are obligated to pay all fees, charges or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the fiscal year 2006, the District paid \$2,622 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 16 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

Ohio School Plan

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 17 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an amount for the acquisition and construction of capital improvements. Although the District had qualifying offsets and disbursements during the year that reduced the set-aside amount below zero for capital acquisitions, these extra amounts may not be used to reduce the set-aside requirement of future years. Excess disbursements related to the textbook reserve may be carried forward from year to year. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	\$ (788,675)	\$ -	\$ 33,271
Current Year Set-aside Requirement	133,044	133,044	-
Qualifying Disbursements	(962,022)	(996,840)	-
Current Year Offsets	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>(1,617,653)</u>	<u>(863,796)</u>	<u>33,271</u>
Set-aside Balances Carried Forward to Future Fiscal Years	\$ <u>(1,617,653)</u>	\$ <u>-</u>	\$ <u>33,271</u>

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

BETHEL LOCAL SCHOOL DISTRICT

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

NOTE 19 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to any legal proceedings.

Perry & Associates
Certified Public Accountants, A.C.

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

February 15, 2007

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Bethel Local School District, Miami County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.



Mary Taylor, CPA
Auditor of State

BETHEL LOCAL SCHOOL DISTRICT
MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 10, 2007