



Mary Taylor, CPA
Auditor of State

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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SHELBY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Botkins Local School District
Shelby County
208 N. Sycamore Street
Botkins, Ohio 45306

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Botkins Local School District, Shelby County, Ohio (the School District), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion 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 opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Botkins Local School District, Shelby County, as of the years ended June 30, 2007 and June 30, 2006, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof, for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 26, 2008

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

This discussion and analysis of the Botkins Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$30,619, which is a 1.5 percent increase from 2006.
- The School District's general receipts are primarily property taxes and grants and entitlements not restricted to specific programs. These receipts represent respectively 26.6 and 49.7 percent of the total cash received for governmental activities during the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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 where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund and the Bond Retirement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 compared to fiscal year 2006 on a modified cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2006	2007
Assets		
Equity in Pooled Cash and Cash Equivalents	\$2,056,725	\$2,117,344
Investments	30,000	
Total Assets	<u>\$2,086,725</u>	<u>\$2,117,344</u>
Net Assets		
Restricted for:		
Capital Outlay	\$58,074	\$56,215
Debt Service	785,085	852,517
Other Purposes	228,366	182,322
Set-asides	14,614	20,590
Bus Purchases	9,983	12,313
Unrestricted	990,603	993,387
Total Net Assets	<u>\$2,086,725</u>	<u>\$2,117,344</u>

As mentioned previously, net assets of governmental activities increased \$30,619 or 1.5 percent during fiscal year 2007. The primary reasons contributing to the increase in cash balance is due to increased cash balances for debt service. As a result of the balance in the debt service fund, the School District's tax rate per \$1,000 of assessed valuation has decreased 2 mills for bonded debt for collections beginning in calendar year 2007.

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

**(Table 2)
Changes in Net Assets**

	Governmental Activities 2006	Governmental Activities 2007
Receipts:		
Program Receipts:		
Charges for Services	\$750,968	\$806,734
Operating Grants and Contributions	357,133	266,131
Capital Grants and Contributions	8,975	2,330
Total Program Receipts	<u>1,117,076</u>	<u>1,075,195</u>
General Receipts:		
Property Taxes	1,380,612	1,328,136
Grants and Entitlements Not Restricted to Specific Programs	2,450,475	2,485,292
Interest and Miscellaneous	85,081	107,371
Total General Receipts	<u>3,916,168</u>	<u>3,920,799</u>
Total Receipts	<u>5,033,244</u>	<u>4,995,994</u>

(Continued)

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets
(Continued)**

	Governmental Activities 2006	Governmental Activities 2007
Disbursements:		
Instruction	2,640,087	2,723,207
Support Services:		
Pupils and Instructional Staff	528,757	522,292
Board of Education, Administration, and Fiscal	553,540	563,796
Operation and Maintenance of Plant	317,422	359,669
Pupil Transportation	161,719	103,827
Central	6,296	9,553
Operation of Non-Instructional Services	168,709	186,839
Extracurricular Activities	196,416	204,725
Capital Outlay	28,501	46,732
Debt Service	247,895	244,735
Total Disbursements	4,849,342	4,965,375
Increase in Net Assets	183,902	30,619
Net Assets, Beginning of Year	1,902,823	2,086,725
Net Assets, End of Year	\$2,086,725	\$2,117,344

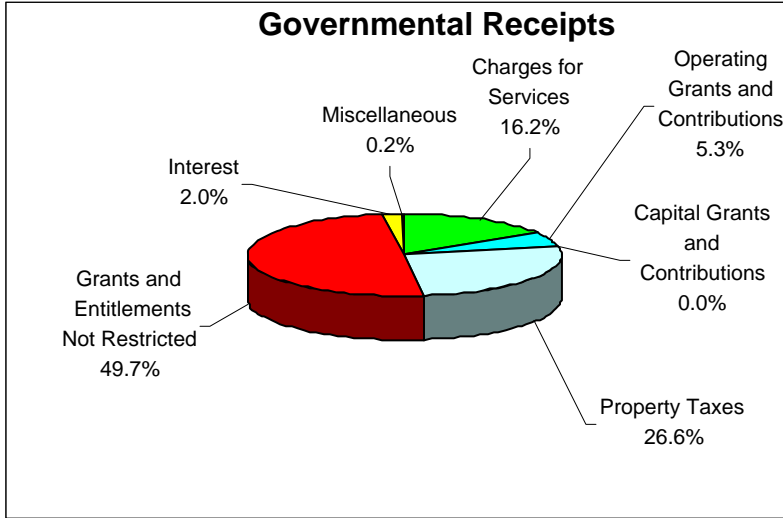
Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes make up 26.6 percent of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies. Operating grants and contributions fell during fiscal year 2007 due to a \$63,000 decrease in the Title VI-B grant. Capital grants and contributions fell due to no SchoolNet monies being received in fiscal year 2007. The School District received \$6,784 for SchoolNet monies during fiscal year 2006. Interest revenue also had a significant increase from prior year due better interest rates.

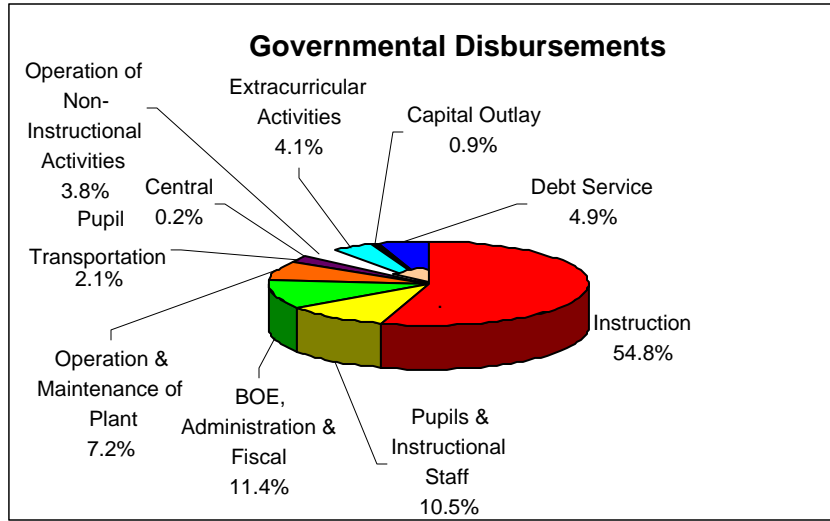
Disbursements increased \$116,033 from fiscal year 2006. This represents a 2.4 percent increase. Transportation disbursements fell during fiscal year 2007. During fiscal year 2006, two new school buses were purchased. No new bus purchases were made during fiscal year 2007.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**



Instruction comprises 54.8 percent of the School District's disbursements. Support services make up 31.4 percent of disbursements.



If you look at the Statement of Activities on page 12 you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Governmental Activities

	Total Cost Of Services 2006	Net Cost of Services 2006	Total Cost Of Services 2007	Net Cost of Services 2007
Instruction	\$2,640,087	(\$1,894,219)	\$2,723,207	(\$1,995,006)
Support Services:				
Pupils and Instructional Staff	528,757	(401,985)	522,292	(441,757)
Board of Education, Administration and Fiscal	553,540	(553,540)	563,796	(563,796)
Operation and Maintenance of Plant	317,422	(317,422)	359,669	(355,169)
Pupil Transportation	161,719	(149,717)	103,827	(81,309)
Central	6,296	(1,296)	9,553	(4,553)
Operation of Non-Instructional Services	168,709	(4,472)	186,839	(14,223)
Extracurricular Activities	196,416	(133,219)	204,725	(142,900)
Capital Outlay	28,501	(28,501)	46,732	(46,732)
Debt Service	247,895	(247,895)	244,735	(244,735)
Total Disbursements	<u>\$4,849,342</u>	<u>(\$3,732,266)</u>	<u>\$4,965,375</u>	<u>(\$3,890,180)</u>

The dependence upon property tax receipts is apparent as over 78 percent of governmental activities are supported through these general receipts.

The School District's Funds

Total governmental funds had receipts of \$4,995,994 and disbursements of \$4,965,375. The General Fund and the Bond Retirement Fund contributed to the increase in fund balances. The increase in open enrollment receipts attributed to the General Fund balance increase.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon 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 2007, the School District amended its General Fund budget to reflect changing circumstances: however, total receipts and total appropriations never changed, only the allocation of those estimates changed slightly. The School District closely monitored expenditures; enabling the School District to spend \$785,993 less than what was appropriated. The Administration and Board of Education have made additional dollars available in many categories in order to facilitate the needs of the School District as they arise. With the School District's tight internal controls, additional monies are appropriated in order to allow those individuals in charge to be creative in their educational needs. The School District has a basic belief that it should be prepared to operate in the best manner to meet the needs of those who are being educated. In order to do so, appropriations are made in excess of minimum required funds to allow for variances in individual programs that are beneficial to the student body, yet economically sound. The School District has historically held conservative ways of spending dollars so that needs can be met with the interest of the taxpayer in mind.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets - The School District did not report capital assets or infrastructure on this modified cash basis of accounting.

Debt - At June 30, 2007, the School District's outstanding debt included \$825,000 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 8 to the basic financial statements.

Current Issues

The School District is proud of its community support of the public schools. The School District's voters have approved permanent improvement levies by large margins. The upkeep and major renovations of the building has been done with permanent improvement monies therefore reducing those expenses from the General Fund.

The School District has closely monitored its operating expenditures. The School District's last operating levy was 24 years ago. In the past few years, several teachers with 30 to 35 years of teaching experience have retired and have been replaced with less experienced personnel in an effort to reduce salary expenses. Since payroll, retirement and benefits are the majority of all school expenses, this savings has been critical.

As student enrollment continues to decrease, the School District closely monitors State foundation dollars, as this revenue is tied to enrollment and this funding method from the State has been declared unconstitutional.

Also, with HB 66 legislation, the School District's valuation will decrease due to the phase out of taxes on tangible personal property. The tax is phased out by reducing the assessment rate on the property each year. In the first five years, school districts according to the House Bill are to be fully reimbursed for the lost revenue. However, in the following seven years, the reimbursement will be phased out.

The continued challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Patrick Elsass, Treasurer at 208 North Sycamore Street, Post Office Box 550, Botkins, Ohio 45306.

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**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2007**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$2,117,344</u></u>
Net Assets	
Restricted for:	
Capital Outlay	\$56,215
Debt Service	852,517
Other Purposes	182,322
Set-Asides	20,590
Bus Purchases	12,313
Unrestricted	<u>993,387</u>
Total Net Assets	<u><u>\$2,117,344</u></u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,087,481	\$539,253	\$23,056		(\$1,525,172)
Special	455,457	1,009	151,906		(302,542)
Vocational	139,052	947	12,030		(126,075)
Other	41,217				(41,217)
Support Services:					
Pupil	234,216	45,796	7,746		(180,674)
Instructional Staff	288,076		26,993		(261,083)
Board of Education	13,301				(13,301)
Administration	389,072				(389,072)
Fiscal	161,423				(161,423)
Operation and Maintenance of Plant	359,669	4,500			(355,169)
Pupil Transportation	103,827	20,188		\$2,330	(81,309)
Central	9,553		5,000		(4,553)
Operation of Non-Instructional Services	186,839	134,216	38,400		(14,223)
Extracurricular Activities	204,725	60,825	1,000		(142,900)
Capital Outlay	46,732				(46,732)
Principal Retirement	180,000				(180,000)
Interest and Fiscal Charges	64,735				(64,735)
Total Governmental Activities	\$4,965,375	\$806,734	\$266,131	\$2,330	(3,890,180)
General Receipts					
Property Taxes Levied for:					
					950,139
					86,871
					269,892
					21,234
					Grants and Entitlements not
					Restricted to Specific Programs 2,485,292
					Interest 99,472
					Miscellaneous 7,899
					3,920,799
					Change in Net Assets 30,619
					Net Assets Beginning of Year 2,086,725
					Net Assets End of Year \$2,117,344

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$993,387	\$852,517	\$238,537	\$2,084,441
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	32,903			32,903
Total Assets	<u>1,026,290</u>	<u>852,517</u>	<u>238,537</u>	<u>2,117,344</u>
Fund Balances				
Reserved for Encumbrances	8,526		21,208	29,734
Reserved for Bus Purchases	12,313			12,313
Reserved for Textbooks and Instructional Materials	20,590			20,590
Unreserved, Undesignated, Reported in:				
General Fund	984,861			984,861
Special Revenue Funds			168,184	168,184
Debt Service Fund		852,517		852,517
Capital Projects Fund			49,145	49,145
Total Fund Balances	<u>\$1,026,290</u>	<u>\$852,517</u>	<u>\$238,537</u>	<u>\$2,117,344</u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Property Taxes	\$950,139	\$269,892	\$108,105	\$1,328,136
Intergovernmental	2,435,715	47,888	259,602	2,743,205
Interest	99,472		1,708	101,180
Tuition and Fees	528,831			528,831
Extracurricular Activities			115,577	115,577
Charges for Services			134,216	134,216
Miscellaneous	20,764		21,218	41,982
Total Receipts	<u>4,034,921</u>	<u>317,780</u>	<u>640,426</u>	<u>4,993,127</u>
Disbursements				
Current:				
Instruction:				
Regular	2,042,989		44,492	2,087,481
Special	302,851		152,606	455,457
Vocational	136,786		2,266	139,052
Other	41,217			41,217
Support Services:				
Pupil	152,485		81,731	234,216
Instructional Staff	225,518		62,558	288,076
Board of Education	13,301			13,301
Administration	389,072			389,072
Fiscal	153,597	5,613	2,213	161,423
Operation and Maintenance of Plant	335,376		24,293	359,669
Pupil Transportation	94,954		8,873	103,827
Central	2,553		7,000	9,553
Operation of Non-Instructional Services			186,839	186,839
Extracurricular Activities	145,999		58,726	204,725
Capital Outlay			46,732	46,732
Debt Service:				
Principal Retirement		180,000		180,000
Interest and Fiscal Charges		64,735		64,735
Total Disbursements	<u>4,036,698</u>	<u>250,348</u>	<u>678,329</u>	<u>4,965,375</u>
Excess of Receipts Over (Under) Disbursements	(1,777)	67,432	(37,903)	27,752
Other Financing Sources (Uses)				
Sale of Fixed Assets	2,018			2,018
Refund of Prior Year Expenditures	849			849
Advances In	10,000			10,000
Advances Out			(10,000)	(10,000)
Total Other Financing Sources (Uses)	<u>12,867</u>		<u>(10,000)</u>	<u>2,867</u>
Net Change in Fund Balances	11,090	67,432	(47,903)	30,619
Fund Balances Beginning of Year	<u>1,015,200</u>	<u>785,085</u>	<u>286,440</u>	<u>2,086,725</u>
Fund Balances End of Year	<u>\$1,026,290</u>	<u>\$852,517</u>	<u>\$238,537</u>	<u>\$2,117,344</u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN CASH FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$820,600	\$820,600	\$950,139	\$129,539
Intergovernmental	2,469,410	2,469,410	2,435,715	(33,695)
Interest	75,000	75,000	99,472	24,472
Tuition and Fees	445,212	445,212	528,831	83,619
Miscellaneous	5,300	5,300	20,764	15,464
Total Receipts	<u>3,815,522</u>	<u>3,815,522</u>	<u>4,034,921</u>	<u>219,399</u>
Disbursements				
Current:				
Instruction:				
Regular	2,238,294	2,232,294	2,047,936	184,358
Special	354,450	354,450	302,850	51,600
Vocational	148,510	154,510	136,786	17,724
Other	48,000	48,000	41,218	6,782
Support Services:				
Pupil	170,875	170,875	152,615	18,260
Instructional Staff	260,200	260,200	225,518	34,682
Board of Education	14,600	14,600	13,302	1,298
Administration	700,922	698,922	389,163	309,759
Fiscal	170,600	170,600	153,911	16,689
Operation and Maintenance of Plant	366,483	368,483	338,146	30,337
Pupil Transportation	167,483	167,483	95,195	72,288
Central	2,805	2,805	2,588	217
Operation of Non-Instructional Services	300	300		300
Extracurricular Activities	182,700	182,700	146,001	36,699
Capital Outlay	5,000	5,000		5,000
Total Disbursements	<u>4,831,222</u>	<u>4,831,222</u>	<u>4,045,229</u>	<u>785,993</u>
Excess of Receipts Over (Under) Disbursements	(1,015,700)	(1,015,700)	(10,308)	1,005,392
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	500	500	2,018	1,518
Refund of Prior Year Expenditures			849	849
Advances In			10,000	10,000
Total Other Financing Sources (Uses)	<u>500</u>	<u>500</u>	<u>12,867</u>	<u>12,367</u>
Net Change in Fund Balance	(1,015,200)	(1,015,200)	2,559	1,017,759
Fund Balance Beginning of Year	1,007,321	1,007,321	1,007,321	
Prior Year Encumbrances Appropriated	7,884	7,884	7,884	
Fund Balance End of Year	<u>\$5</u>	<u>\$5</u>	<u>\$1,017,764</u>	<u>\$1,017,759</u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$6,601	\$47,136
Investments	50,000	
Total Assets	56,601	47,136
Net Assets		
Held for Students		47,136
Held in Trust for Scholarships:		
Expendable	4,893	
Non-expendable	51,708	
Total Net Assets	\$56,601	\$47,136

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private Purpose Trust
Additions	
Interest	<u>\$3,510</u>
Deductions	
Scholarships	500
Other	10,490
Total Deductions	<u>10,990</u>
Change in Net Assets	(7,480)
Net Assets - Beginning of Year	<u>64,081</u>
Net Assets - End of Year	<u><u>\$56,601</u></u>

See accompanying notes to the basic financial statements.

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**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Botkins Local School District (the School District) is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services mandated by the State and federal agencies.

The School District is located in Shelby County. The Board of Education controls the School District's instructional/support building which is staffed by 25 classified employees and 43 certificated full-time personnel who provide services to 527 students and other community members.

Reporting Entity

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Botkins Local School District, this includes general operations, food service, and student related activities.

B. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 11 to the basic financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Ohio Association of School Business Officials Workers' Compensation Southwestern Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

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

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

Bond Retirement Fund - The Bond Retirement Fund accounts for the accumulation of resources received from property taxes for the payment of school improvement general obligation bond principal, interest and related costs.

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

2. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs.

The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the fund, function level within each fund for the general fund, the bond retirement debt service fund, classroom facilities special revenue fund and the permanent improvement capital projects fund and the fund level for all other funds as its legal level of control.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

E. Cash and Investments

The School District pools cash from all funds, except for the Scholarship Private Purpose Trust Fund, for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2007, the School District invested in repurchase agreements and non-negotiable certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2007 was \$99,472, which included \$53,392 assigned from other School District funds.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for bus purchases and textbooks and instructional materials.

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2007, there were no net assets restricted by enabling legislation.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, bus purchases, and textbooks and instructional materials.

O. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

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

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

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

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 accounts including but not limited to passbook accounts.

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

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

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

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

B. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution in security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$886,483. Of the School District's deposits \$325,901 was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$685,626 of the School District's bank balance of \$1,011,527 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

C. Investments

The School District investment at June 30, 2007, consisted of a repurchase agreement in the amount \$1,284,598 and a certificate of deposit in the amount of \$50,000.

1. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices. The School District's repurchase agreement matures in less than one year.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

2. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The School District's \$1,284,598 investment in repurchase agreements is exposed to credit risk due to the underlying securities are held by the investment's counterparty or its trust department or agent, not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

3. Concentration of Credit Risk

The School District places no limits on the amount the School District may invest in any one issuer. The School District's investments consist solely of an investment in a repurchase agreement.

4. Credit Risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due 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 receipts received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. PROPERTY TAXES (Continued)

Tangible personal property tax receipts received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Shelby and Auglaize Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$36,960,090	80.70%	\$40,034,500	85.18%
Public Utility Personal	36,230	0.08	35,800	0.08
Tangible Personal Property	8,800,814	19.22	6,931,961	14.74
Total	\$45,797,134	100.00%	\$47,002,261	100.00%
Tax rate per \$1,000 of assessed valuation	\$34.05		\$32.05	

5. RISK MANAGEMENT

A. Property and Liability

The School 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. The School District contracted with Marsh Insurance Company through the Southwestern Ohio Educational Purchasing Council. Coverage provided is as follows:

Building and Contents (\$1,000 deductible)	\$15,133,702
Crime Insurance (\$1,000 deductible)	500,000
Automobile Liability (\$1,000 deductible)	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Uninsured/Underinsured Motorists (\$500 deductible)	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Comprehensive Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational General Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. RISK MANAGEMENT (Continued)

Employee Benefits Liability (\$1,000 deductible)	
Per Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Per Occurrence	1,000,000
Disease – Each Employee	1,000,000
Per Occurrence	1,000,000
School Bond Legal Liability (\$5,000 deductible)	
Aggregate Limit	1,000,000
General Liability Umbrella Policy	5,000,000

Settled claims have not exceeded this commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 savings 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 insures 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 Gates McDonald and Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

For fiscal year 2007, the School District participated in the Shelby County Schools Consortium, an insurance purchasing pool (Note 11). The intent of the Consortium is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the Consortium.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$56,617, \$51,604, and \$47,579 respectively; 46 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, 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 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$294,238, \$279,747, and \$267,553 respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,174 made by the School District and \$8,205 made by the plan members.

7. POSTEMPLOYMENT BENEFITS

The School 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 Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2007, and June 20, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$22,634 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease from 3.42 percent in fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$27,528.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, the value of the health care fund was \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. LONG-TERM DEBT

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/06	Additions	Reductions	Principal Outstanding 6/30/07	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
1990 School Improvement Bond	\$ 640,000		\$145,000	\$495,000	\$155,000
1995 Building Assistance Bond	365,000		35,000	330,000	30,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,005,000</u>	<u>\$0</u>	<u>\$180,000</u>	<u>\$825,000</u>	<u>\$185,000</u>

School Improvement Bonds – Series A and B – On March 1, 1990, the School District issued \$2,500,000 in voted general obligation bonds for the purpose of additions and improvements to the school building. The bond was issued for a twenty year period with final maturity in December 2010. The bonds interest rate ranges from 5.8 percent to 7.2 percent. The bonds will be retired from the Bond Retirement Debt Service Fund.

Building Assistance Fund – On January 15, 1995, Botkins Local School District issued \$750,000 in voted general obligation bonds for the purpose of acquisition, construction, reconstruction and improvement of buildings and structures and the acquisition of sites. The bonds were issued for a twenty-three year period with a final maturity during fiscal year 2018. The bonds will be retired from the Bond Retirement Debt Service Fund.

At June 30, 2007, the School District's overall legal debt margin was \$4,230,203 with an unvoted debt margin of \$47,002. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2008	\$185,000	\$51,443	\$236,443
2009	195,000	38,003	233,003
2010	205,000	23,768	228,768
2011	30,000	15,413	45,413
2012	30,000	13,358	43,358
2013-2017	150,000	35,965	185,965
2018	30,000	1,028	31,028
	<u>\$825,000</u>	<u>\$178,978</u>	<u>\$1,003,978</u>

9. INTERFUND TRANSACTIONS

During fiscal year 2007, the other governmental funds repaid an advance to the General Fund of \$10,000. The loan was the result of a time lag between the dates that reimbursable expenditures occurred, and the revenue to re-pay the funds was available.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. SET-ASIDE CALCULATIONS

State statute annually requires the School District set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Textbooks and Instructional Material	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2006	\$14,614	\$0
Current Year Set-aside Requirement	82,248	82,248
Qualifying Disbursements	(76,272)	0
Current Year Offsets	0	(108,106)
Totals	\$20,590	(\$25,858)
Set-aside Balances Carried Forward to Future Fiscal Years	\$20,590	\$0
Set-aside Reserve Balances as of June 30, 2007	\$20,590	\$0

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirement of future fiscal years. Therefore, the negative amount is not presented as being carried forward to the next fiscal year.

11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts within a geographic area determined by the Ohio Department of Education. 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 two representatives from each county elected by majority vote of all charter member schools within the county plus one representative from the fiscal agent. The School District paid WOCO \$19,163 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, OH 45365.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 124 school districts in 18 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 2007, the School District paid \$25,966 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is 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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the 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 fiscal year 2007, the School District paid \$959 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Ohio Association of School Business Officials Workers' Compensation Southwestern Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials (OASBO) as an insurance purchasing pool.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Shelby County Schools Consortium – The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently. Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for dental and health insurance and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating school district and the educational service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 N. Ludlow St. Dayton, Ohio 45402.

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program – The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

12. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

13. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds include donor-restricted endowments. These assets are shown as net assets held in trust for scholarships - non-expendable to represent the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is shown as net assets held in trust for scholarships - expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowments of the private purpose funds indicate that the interest should be used to provide scholarships.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual – Budget Basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and modified cash basis is outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budget basis) in the General fund amounted to \$8,526.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

This discussion and analysis of the Botkins Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$183,902, or 9.6 percent. The increase is the result of increased open enrollment receipts and property taxes receipts used to fund debt service exceeding the required debt service payments.
- The School District's general receipts are primarily property taxes and grants and entitlements not restricted to specific programs. These receipts represent respectively 27.4 and 48.7 percent of the total cash received for governmental activities during the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as 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 where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund and the Bond Retirement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal year 2005 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,872,823	\$2,056,725
Investments	30,000	30,000
Total Assets	1,902,823	2,086,725
Net Assets		
Restricted for:		
Capital Outlay	\$87,805	\$58,074
Debt Service	687,811	785,085
Other Purposes	171,872	228,366
Set-asides	1,867	14,614
Bus Purchases	7,792	9,983
Unrestricted	945,676	990,603
Total Net Assets	\$1,902,823	\$2,086,725

As mentioned previously, net assets of governmental activities increased \$183,902 or 9.6 percent during fiscal year 2006. The primary reasons contributing to the increase in cash balance is due to increased revenues for open enrollment and property tax receipts for debt service exceeding debt service payments.

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

(Table 2)
Changes in Net Assets

	Governmental Activities	Governmental Activities
	2005	2006
Receipts:		
Program Receipts:		
Charges for Services	\$665,624	\$750,968
Operating Grants and Contributions	345,607	357,133
Capital Grants and Contributions	3,741	8,975
Total Program Receipts	1,014,972	1,117,076
General Receipts:		
Property Taxes	1,246,285	1,380,612
Grants and Entitlements Not Restricted to Specific Programs	2,421,903	2,450,475
Interest and Miscellaneous	40,559	85,081
Total General Receipts	3,708,747	3,916,168
Total Receipts	4,723,719	5,033,244

(Continued)

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

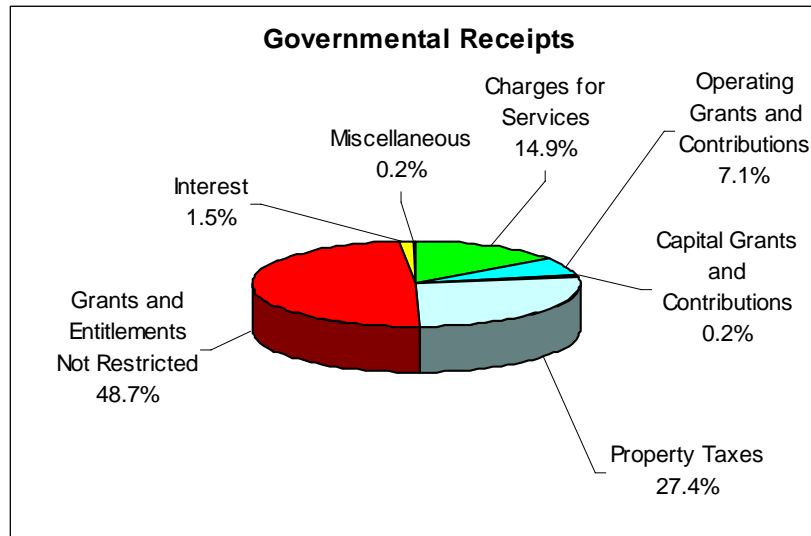
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets
(Continued)**

	Governmental Activities 2005	Governmental Activities 2006
Disbursements:		
Instruction	2,454,866	2,640,087
Support Services:		
Pupils and Instructional Staff	509,624	528,757
Board of Education, Administration, and Fiscal	530,150	553,540
Operation and Maintenance of Plant	321,555	317,422
Pupil Transportation	86,986	161,719
Central	6,844	6,296
Operation of Non-Instructional Services	167,883	168,709
Extracurricular Activities	187,730	196,416
Capital Outlay	108,834	28,501
Debt Service	255,034	247,895
Total Disbursements	<u>4,629,506</u>	<u>4,849,342</u>
Increase in Net Assets	94,213	183,902
Net Assets, Beginning of Year	1,808,610	1,902,823
Net Assets, End of Year	<u>\$1,902,823</u>	<u>\$2,086,725</u>

Governmental Activities

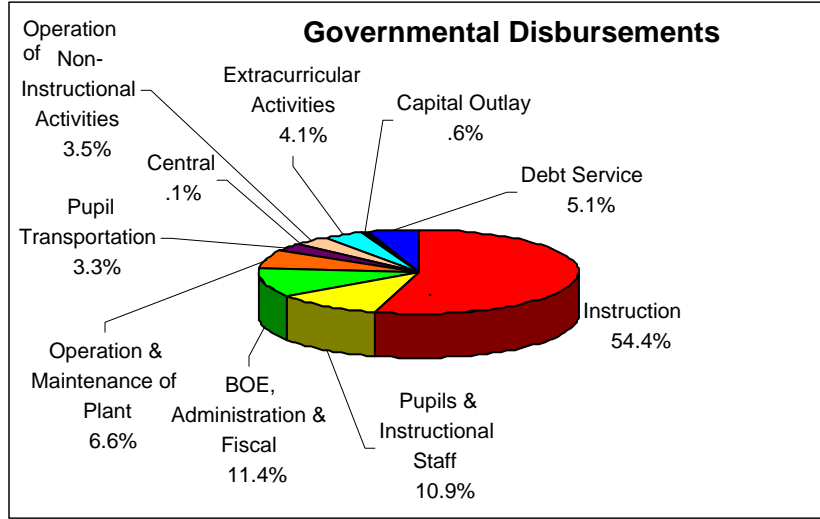
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 27.4 percent of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies. The increase in charges for services occurred because of an increase in open enrollment revenue. Interest revenue also had a significant increase from prior year due to an increase in interest rates. Disbursements increased from fiscal year 2005 due in part to a 3.25 percent increase in salaries. Also during fiscal year 2006, two new school buses were purchased.



**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Instruction comprises 54.4 percent of the School District's disbursements. Support services make up 32.3 percent of disbursements.



If you look at the Statement of Activities on page 44 you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement.

A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005	Total Cost Of Services 2006	Net Cost of Services 2006
Instruction	\$2,454,866	(\$1,789,180)	\$2,640,087	(\$1,894,219)
Support Services:				
Pupils and Instructional Staff	509,624	(389,537)	528,757	(401,985)
Board of Education, Administration and Fiscal	530,150	(530,150)	553,540	(553,540)
Operation and Maintenance of Plant	321,555	(321,555)	317,422	(317,422)
Pupil Transportation	86,986	(75,791)	161,719	(149,717)
Central	6,844	(1,844)	6,296	(1,296)
Operation of Non-Instructional Services	167,883	(7,675)	168,709	(4,472)
Extracurricular Activities	187,730	(134,934)	196,416	(133,219)
Capital Outlay	108,834	(108,834)	28,501	(28,501)
Debt Service	255,034	(255,034)	247,895	(247,895)
Total Disbursements	\$4,629,506	(\$3,614,534)	\$4,849,342	(\$3,732,266)

The dependence upon property tax receipts is apparent as over 77 percent of governmental activities are supported through these general receipts.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The School District's Funds

Total governmental funds had receipts of \$5,033,244 and disbursements of \$4,849,342. The General Fund and the Bond Retirement Fund contributed to the increase in fund balances. The increase in open enrollment receipts and personal property taxes receipts attributed to the General Fund balance increase. The fund balance of nonmajor funds remained relatively stable.

General Fund Budgeting Highlights

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

During fiscal year 2006, the School District amended its General Fund budget several times to reflect changing circumstances; however, total receipts and total appropriations never changed, only the allocation of those estimates. Appropriations for administration were decreased to provide for a transfer out of \$60,000 to a Severance Special Revenue Fund. The School District closely monitored expenditures, enabling the School District to spend \$764,788 less than what was appropriated.

Capital Assets and Debt Administration

Capital Assets - The School District did not report capital assets and infrastructure on this modified cash basis of accounting.

Debt - At June 30, 2006, the School District's outstanding debt included \$1,005,000 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the School District's debt, refer to Note 8 to the basic financial statements.

Current Issues

The School District is proud of its community support of the public schools. The School District's voters have approved permanent improvement levies by large margins. The upkeep and major renovations of the building has been done with permanent improvement monies therefore reducing those expenses from the General Fund.

The School District has closely monitored its operating expenditures. The School District's last operating levy was 24 years ago. In the past few years, several teachers with 30 to 35 years of teaching experience have retired and have been replaced with less experienced personnel in an effort to reduce salary expenses. Since payroll, retirement and benefits are the majority of all school expenses, this savings has been critical.

As student enrollment continues to decrease, the School District closely monitors State foundation dollars, as this revenue is tied to enrollment and this funding method from the State has been declared unconstitutional.

The continued challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Patrick Elsass, Treasurer at 208 North Sycamore Street, Post Office Box 550, Botkins, Ohio 45306.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,056,725
Investments	<u>30,000</u>
Total Assets	<u><u>2,086,725</u></u>
Net Assets	
Restricted for:	
Capital Outlay	58,074
Debt Service	785,085
Other Purposes	228,366
Set-Asides	14,614
Bus Purchases	9,983
Unrestricted	<u>990,603</u>
Total Net Assets	<u><u>\$2,086,725</u></u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,035,058	\$502,626	\$35,119	\$6,784	(\$1,490,529)
Special	446,138		189,249		(256,889)
Vocational	125,556		12,090		(113,466)
Other	33,335				(33,335)
Support Services:					
Pupil	223,858	51,148	22,357		(150,353)
Instructional Staff	304,899		53,267		(251,632)
Board of Education	14,376				(14,376)
Administration	365,006				(365,006)
Fiscal	174,158				(174,158)
Operation and Maintenance of Plant	317,422				(317,422)
Pupil Transportation	161,719	9,811		2,191	(149,717)
Central	6,296		5,000		(1,296)
Operation of Non-Instructional Services	168,709	127,581	36,656		(4,472)
Extracurricular Activities	196,416	59,802	3,395		(133,219)
Capital Outlay	28,501				(28,501)
Principal Retirement	170,000				(170,000)
Interest and Fiscal Charges	77,895				(77,895)
Total Governmental Activities	\$4,849,342	\$750,968	\$357,133	\$8,975	(3,732,266)
General Receipts					
Property Taxes Levied for:					
					956,866
					88,573
					313,506
					21,667
Grants and Entitlements not					
					2,450,475
					74,790
					10,291
					3,916,168
					183,902
					1,902,823
					\$2,086,725

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$990,603	\$785,085	\$256,440	\$2,032,128
Investments			30,000	30,000
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>24,597</u>			<u>24,597</u>
Total Assets	<u><u>1,015,200</u></u>	<u><u>785,085</u></u>	<u><u>286,440</u></u>	<u><u>2,086,725</u></u>
Fund Balances				
Reserved for Encumbrances	7,879		8,204	16,083
Reserved for Bus Purchases	9,983			9,983
Reserved for Textbooks and Instructional Materials	14,614			14,614
Unreserved, Undesignated, Reported in:				
General Fund	982,724			982,724
Special Revenue Funds			223,802	223,802
Debt Service Fund		785,085		785,085
Capital Projects Fund			54,434	54,434
Total Fund Balances	<u><u>\$1,015,200</u></u>	<u><u>\$785,085</u></u>	<u><u>\$286,440</u></u>	<u><u>\$2,086,725</u></u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Property Taxes	\$956,866	\$313,506	\$110,240	\$1,380,612
Intergovernmental	2,412,749	38,015	347,617	2,798,381
Interest	74,790		1,938	76,728
Tuition and Fees	502,626			502,626
Extracurricular Activities			120,456	120,456
Charges for Services			127,581	127,581
Miscellaneous	5,412		16,565	21,977
Total Receipts	<u>3,952,443</u>	<u>351,521</u>	<u>724,397</u>	<u>5,028,361</u>
Disbursements				
Current:				
Instruction:				
Regular	1,971,233		63,825	2,035,058
Special	247,967		198,171	446,138
Vocational	124,756		800	125,556
Other	33,335			33,335
Support Services:				
Pupil	145,130		78,728	223,858
Instructional Staff	214,254		90,645	304,899
Board of Education	14,376			14,376
Administration	365,006			365,006
Fiscal	165,565	6,352	2,241	174,158
Operation and Maintenance of Plant	311,275		6,147	317,422
Pupil Transportation	94,347		67,372	161,719
Central	1,296		5,000	6,296
Operation of Non-Instructional Services			168,709	168,709
Extracurricular Activities	138,921		57,495	196,416
Capital Outlay			28,501	28,501
Debt Service:				
Principal Retirement		170,000		170,000
Interest and Fiscal Charges		77,895		77,895
Total Disbursements	<u>3,827,461</u>	<u>254,247</u>	<u>767,634</u>	<u>4,849,342</u>
Excess of Receipts Over (Under) Disbursements	124,982	97,274	(43,237)	179,019
Other Financing Sources (Uses)				
Sale of Fixed Assets	909			909
Refund of Prior Year Expenditures	3,974			3,974
Advances In			10,000	10,000
Advances Out	(10,000)			(10,000)
Transfers In			60,000	60,000
Transfers Out	(60,000)			(60,000)
Total Other Financing Sources (Uses)	<u>(65,117)</u>		<u>70,000</u>	<u>4,883</u>
Net Change in Fund Balances	59,865	97,274	26,763	183,902
Fund Balances Beginning of Year	<u>955,335</u>	<u>687,811</u>	<u>259,677</u>	<u>1,902,823</u>
Fund Balances End of Year	<u>\$1,015,200</u>	<u>\$785,085</u>	<u>\$286,440</u>	<u>\$2,086,725</u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN CASH FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Property Taxes	\$868,000	\$868,000	\$956,866	\$88,866
Intergovernmental	2,386,484	2,386,484	2,412,749	26,265
Interest	27,000	27,000	74,790	47,790
Tuition and Fees	426,309	426,309	502,626	76,317
Miscellaneous	6,500	6,500	5,412	(1,088)
Total Receipts	<u>3,714,293</u>	<u>3,714,293</u>	<u>3,952,443</u>	<u>238,150</u>
Disbursements				
Current:				
Instruction:				
Regular	2,115,581	2,114,081	1,972,310	141,771
Special	298,421	298,421	247,967	50,454
Vocational	132,751	134,751	124,916	9,835
Other	28,600	43,600	33,335	10,265
Support Services:				
Pupil	160,775	160,775	145,555	15,220
Instructional Staff	252,326	252,326	214,253	38,073
Board of Education	14,300	15,300	14,376	924
Administration	815,844	720,344	366,172	354,172
Fiscal	177,118	180,118	168,364	11,754
Operation and Maintenance of Plant	351,470	351,470	311,421	40,049
Pupil Transportation	149,692	155,692	96,149	59,543
Central	2,500	2,500	1,601	899
Operation of Non-Instructional Services	300	300		300
Extracurricular Activities	165,450	165,450	138,921	26,529
Capital Outlay	5,000	5,000		5,000
Total Disbursements	<u>4,670,128</u>	<u>4,600,128</u>	<u>3,835,340</u>	<u>764,788</u>
Excess of Receipts Over (Under) Disbursements	(955,835)	(885,835)	117,103	1,002,938
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	500	500	909	409
Refund of Prior Year Expenditures			3,974	3,974
Advances Out		(10,000)	(10,000)	
Transfers Out		(60,000)	(60,000)	
Total Other Financing Sources (Uses)	<u>500</u>	<u>(69,500)</u>	<u>(65,117)</u>	<u>4,383</u>
Net Change in Fund Balance	(955,335)	(955,335)	51,986	1,007,321
Fund Balance Beginning of Year	937,855	937,855	937,855	
Prior Year Encumbrances Appropriated	<u>17,480</u>	<u>17,480</u>	<u>17,480</u>	
Fund Balance End of Year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$1,007,321</u></u>	<u><u>\$1,007,321</u></u>

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,081	\$38,375
Investments	60,000	
Total Assets	64,081	38,375
Net Assets		
Held for Students		38,375
Held in Trust for Scholarships:		
Expendable	3,000	
Non-expendable	61,081	
Total Net Assets	\$64,081	\$38,375

See accompanying notes to the basic financial statements.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Interest	<u>\$1,204</u>
Deductions	
Scholarships	<u>950</u>
Change in Net Assets	254
Net Assets - Beginning of Year	<u>63,827</u>
Net Assets - End of Year	<u><u>\$64,081</u></u>

See accompanying notes to the basic financial statements.

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**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Botkins Local School District (the School District) is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services mandated by the State and federal agencies.

The School District is located in Shelby County. The Board of Education controls the School District's instructional/support building which is staffed by 25 classified employees and 43 certificated full-time personnel who provide services to 550 students and other community members.

Reporting Entity

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Botkins Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 11 to the basic financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Ohio Associate of School Business Officials Workers' Compensation Southwestern Group Rating Plan
- Shelby County Schools Consortium
- Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

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

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

Bond Retirement Fund - The Bond Retirement Fund accounts for the accumulation of resources received from property taxes for the payment of school improvement general obligation bond principal, interest and related costs.

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

2. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the fund, function level within each fund for the general fund, the bond retirement debt service fund, classroom facilities special revenue fund and the permanent improvement capital projects fund and the fund level for all other funds as its legal level of control.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

E. Cash and Investments

The School District pools cash from all funds, except for the Scholarship Private Purpose Trust Fund, for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2006, the School District invested in repurchase agreements and non-negotiable certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$74,790, which included \$38,696 assigned from other School District funds.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for bus purchases and textbooks and instructional materials.

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2006, there were no net assets restricted by enabling legislation.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, bus purchases, and textbooks and instructional materials.

O. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

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

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

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

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 accounts including but not limited to passbook accounts.

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

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

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

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

B. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution in security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$480,418. Of the School District's deposits \$309,381 was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2006, \$324,650 of the School District's bank balance of \$634,031 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

C. Investments

The School District investment at June 30, 2006, consisted of a repurchase agreement in the amount \$1,618,763 and certificates of deposit in the amount of \$90,000.

1. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices. The School District's repurchase agreement matures in less than one year.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

2. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The School District's \$1,284,598 investment in repurchase agreements is exposed to credit risk due to the underlying securities are held by the investment's counterparty or its trust department or agent, not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

3. Concentration of Credit Risk

The School District places no limits on the amount the School District may invest in any one issuer. The School District's investments consist solely of an investment in a repurchase agreement.

4. Credit Risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due 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 receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. PROPERTY TAXES (Continued)

Tangible personal property tax receipts received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 18.75 percent of true value. The tangible personal property tax is being phased out. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$36,337,930	80.09%	\$36,960,090	80.70%
Public Utility Personal	35,640	0.08	36,230	0.08
Tangible Personal Property	8,995,866	19.83	8,800,814	19.22
Total	\$45,369,436	100.00%	\$45,797,134	100.00%
Tax rate per \$1,000 of assessed valuation	\$34.05		\$34.05	

5. RISK MANAGEMENT

A. Property and Liability

The School 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. The School District contracted with Marsh Insurance Company through the Southwestern Ohio Educational Purchasing Council. Coverage provided is as follows:

Building and Contents (\$1,000 deductible)	\$13,241,656
Crime Insurance (\$1,000 deductible)	500,000
Automobile Liability (\$1,000 deductible)	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Uninsured/Underinsured Motorists (\$500 deductible)	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Comprehensive Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational General Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. RISK MANAGEMENT (Continued)

Employee Benefits Liability (\$1,000 deductible)	
Per Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Per Occurrence	1,000,000
Disease – Each Employee	1,000,000
Per Occurrence	1,000,000
School Bond Legal Liability (\$5,000 deductible)	
Aggregate Limit	1,000,000
General Liability Umbrella Policy	5,000,000

Settled claims have not exceeded this commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 savings 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 insures 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 Gates, McDonald, and Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

For fiscal year 2006, the School District participated in the Shelby County Schools Consortium, an insurance purchasing pool (Note 11). The intent of the Consortium is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the Consortium.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School 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. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$51,604, \$47,579 and \$39,772 respectively; 48 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, 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 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$279,747, \$267,553 and \$266,786 respectively; 84 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 \$4,517 made by the School District and \$7,411 made by the plan members.

7. POSTEMPLOYMENT BENEFITS

The School 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 Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2006, and June 20, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$21,519 for fiscal year 2006.

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 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, a decrease from 3.43 percent in 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 2007, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$26,378.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. LONG-TERM DEBT

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	<u>Principal Outstanding 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/06</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
General Obligation Bonds:					
1990 School Improvement Bond	\$ 775,000	\$0	\$135,000	\$640,000	\$145,000
1995 Building Assistance Bond	400,000	0	35,000	365,000	35,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,175,000</u>	<u>\$0</u>	<u>\$170,000</u>	<u>\$1,005,000</u>	<u>\$180,000</u>

School Improvement Bonds – Series A and B – On March 1, 1990, the School District issued \$2,500,000 in voted general obligation bonds for the purpose of additions and improvements to the school building. The bond was issued for a twenty year period with final maturity in December 2010. The bonds interest rate ranges from 5.8 percent to 7.2 percent. The bonds will be retired from the Bond Retirement Debt Service Fund.

Building Assistance Fund – On January 15, 1995, Botkins Local School District issued \$750,000 in voted general obligation bonds for the purpose of acquisition, construction, reconstruction and improvement of buildings and structures and the acquisition of sites. The bonds were issued for a twenty-three year period with a final maturity during fiscal year 2018. The bonds will be retired from the Bond Retirement Debt Service Fund.

At June 30, 2006, the School District's overall legal debt margin was \$3,901,827 with an unvoted debt margin of \$45,797. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2006, are as follows:

General Obligation Bonds			
<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 180,000	\$ 64,735	\$ 244,735
2008	185,000	51,443	236,443
2009	195,000	38,003	233,003
2010	205,000	23,768	228,768
2011	30,000	15,413	45,413
2010-2016	150,000	46,240	196,240
2017-2018	60,000	4,111	64,111
Total	<u>\$1,005,000</u>	<u>\$243,713</u>	<u>\$1,248,713</u>

9. INTERFUND TRANSACTIONS

At June 30, 2006, the General Fund had transferred \$60,000 from the general fund to the Severance Special Revenue Fund in order to fund future severance payments.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. SET-ASIDE CALCULATIONS

State statute annually requires the School District set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Capital Improvements	Textbooks & Instructional Materials
Set-aside Reserve Balance as of June 30, 2005		\$1,867
Current Year Set-aside Requirement	\$81,838	81,838
Current Year Offsets	(110,239)	0
Qualifying Disbursements	(0)	(69,091)
Total	(\$28,401)	\$14,614
 Total Set-aside Carried Forward to Future Years	 \$0	 \$14,614

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirement of future fiscal years. Therefore, the negative amount is not presented as being carried forward to the next fiscal year.

11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts within a geographic area determined by the Ohio Department of Education. 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 WOCO consists of two representatives from each county elected by majority vote of all charter member schools within the county plus one representative from the fiscal agent. The School District paid WOCO \$20,537 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, OH 45365.

Southwestern Ohio Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 124 school districts in 18 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.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

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 School District paid \$29,394 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is 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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the 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 fiscal year 2006, the School District paid \$2,247 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Ohio Association of School Business Officials Workers' Compensation Southwestern Group Rating Plan - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials (OASBO) as an insurance purchasing pool.

Shelby County Schools Consortium – The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for dental and health insurance and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating school district and the educational service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 N. Ludlow St. Dayton, Ohio 45402.

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program – The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

12. CONTINGENCIES

A. Grants

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

B. Litigation

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

13. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust funds include donor-restricted endowments. These assets are shown as net assets held in trust for scholarships - non-expendable to represent the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is shown as net assets held in trust for scholarships - expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowments of the private purpose funds indicate that the interest should be used to provide scholarships.

14. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual – Budget Basis presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and modified cash basis is outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year-end (budget basis) for the General Fund amounted to \$7,879.

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Mary Taylor, CPA

Auditor of State

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

Botkins Local School District
Shelby County
208 N. Sycamore Street
Botkins, Ohio 45306

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Botkins Local School District, Shelby County, (the School District), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 26, 2008 wherein, we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. We noted certain matters that we reported to the School District's management in a separate letter dated February 26, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the School 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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 26, 2008.

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 26, 2008

**BOTKINS LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 and JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance – Investments Held in Derivatives

Ohio Rev. Code Section 135.14(E) allows the treasurer to enter into a written repurchase agreement with any eligible institution, or any eligible dealer under the terms of which agreement the treasurer or governing board purchases, and such institution or dealer agrees unconditionally to repurchase any of the securities listed in divisions (B) (1) to (5). The market value of securities subject to an overnight written repurchase agreement must exceed the principal value of the overnight repurchase agreement by at least two per cent. A written repurchase agreement shall not exceed thirty days and the market value of securities subject to a written repurchase agreement must exceed the principal value of the written repurchase agreement by at least two per cent and be marked to market daily. All securities purchased pursuant to this division shall be delivered into the custody of the treasurer or governing board or an agent designated by the treasurer or governing board.

Pursuant to Section 135.14(C) and OAG Opinion 99-026 nothing in the classifications of eligible obligations set forth in divisions (B) (1) to (7) of this section shall be construed to authorize any investment in a derivative, and no treasurer or governing board shall invest in a derivative. For purposes of this division, "derivative" means a financial instrument or contract or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself. Any security, obligation, trust account, or other instrument that is created from an issue of the United States treasury or is created from an obligation of a federal agency or instrumentality or is created from both is considered a derivative instrument. An eligible investment described in this section with a variable interest rate payment, based upon a single interest payment or single index comprised of other eligible investments provided for in division (B)(1) or (2) of this section, is not a derivative, provided that such variable rate investment has a maximum maturity of two years.

Investments ranging from 58 to 87 percent of available cash balances were made in repurchase agreements, which were government agency collateralized mortgage obligations which are considered derivatives, pursuant to this section.

The depository should be notified that repurchase agreements may not be invested in securities that are considered derivatives by the Ohio Revised Code.

Officials' Response

We have been in contact with the U.S. Bank and have made changes to our account. As of April 1, 2008, we will no longer have a repurchase agreement.



Mary Taylor, CPA
Auditor of State

BOTKINS LOCAL SCHOOL DISTRICT

SHELBY 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 29, 2008**