



**Auditor of State
Betty Montgomery**

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1278

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 the Benton-Carroll-Salem Local School District, Ottawa County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton-Carroll-Salem Local School District, Ottawa County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

June 3, 2005

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of the Benton-Carroll-Salem Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$182,912 which represents a 1.1 percent decrease from 2003.
- General revenues accounted for \$17,520,854 in revenue or 89.39 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,302,296 or 11.61 percent of total revenues of \$19,823,150.
- The District had \$20,006,062 in expenses related to governmental activities; only \$2,302,296 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,520,854 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$17,083,561 in revenues and other financing sources and \$16,679,079 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance, increased \$438,243 from \$3,883,341 to \$4,321,584.
- The District's other major governmental fund is the permanent improvement fund. The permanent improvement fund had \$521,356 in revenues and \$808,413 in expenditures. During fiscal 2004, the permanent improvement fund's fund balance, decreased \$287,057 from \$1,921,390 to \$1,634,333.

Using the Basic Financial Statements (BFS)

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

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

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 14,609,351	\$ 14,901,840
Capital assets	<u>11,032,125</u>	<u>11,462,329</u>
Total assets	<u>25,641,476</u>	<u>26,364,169</u>
<u>Liabilities</u>		
Current liabilities	7,689,787	8,561,632
Long-term liabilities	<u>2,041,191</u>	<u>1,709,127</u>
Total liabilities	<u>9,730,978</u>	<u>10,270,759</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	10,887,321	11,462,329
Restricted	2,277,329	2,427,843
Unrestricted	<u>2,745,848</u>	<u>2,203,238</u>
Total net assets	<u>\$ 15,910,498</u>	<u>\$ 16,093,410</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$15,910,498. At year-end, unrestricted net assets were \$2,745,848.

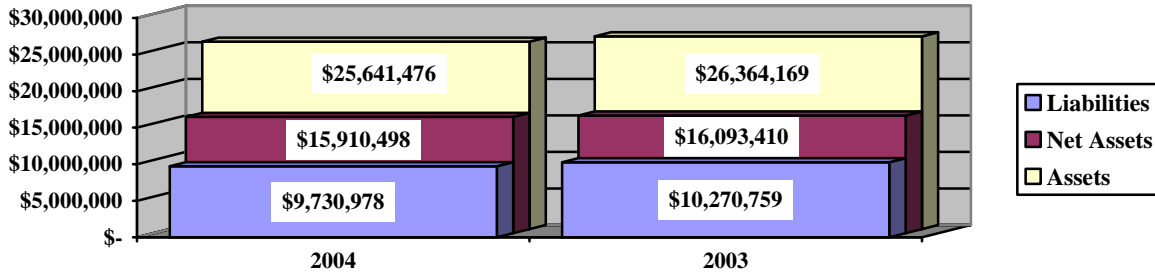
At year-end, capital assets represented 43.02 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2004, were \$10,887,321. These net assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

A portion of the District's net assets, \$2,277,329, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,745,848 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,111,137	\$ 1,184,984
Operating grants and contributions	937,423	827,421
Capital grants and contributions	253,736	283,591
General revenues:		
Property taxes	8,125,539	7,439,315
Grants and entitlements	9,207,230	7,846,991
Investment earnings	140,755	191,767
Other	47,330	19,069
Total revenues	<u>19,823,150</u>	<u>17,793,138</u>

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	Change in Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,809,523	8,574,133
Special	1,748,447	1,511,703
Vocational	80,042	97,764
Adult/continuing	2	-
Other	351,220	122,990
Support services:		
Pupil	1,086,959	974,367
Instructional staff	903,754	840,668
Board of education	95,617	104,085
Administration	1,506,925	1,443,680
Fiscal	396,588	368,834
Operations and maintenance	2,101,293	1,883,890
Pupil transportation	1,011,083	1,036,649
Central	453,670	193,057
Operations of non-instructional services	66,766	229,742
Food service operations	762,904	818,558
Extracurricular activities	<u>631,269</u>	<u>633,995</u>
Total expenses	<u>20,006,062</u>	<u>18,834,115</u>
Change in net assets	<u>\$ (182,912)</u>	<u>\$ (1,040,977)</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$182,912. Total governmental expenses of \$20,006,062 were offset by program revenues of \$2,302,296 and general revenues of \$17,520,854. Program revenues supported 11.52 percent of the total governmental expenses.

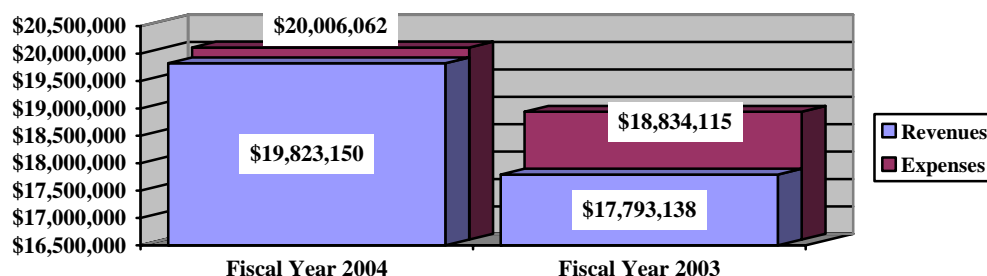
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.44 percent of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004 and 2003.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses				
Instruction:				
Regular	\$ 8,809,523	\$ 8,528,808	\$ 8,574,133	\$ 7,958,375
Special	1,748,447	1,572,892	1,511,703	1,357,234
Vocational	80,042	67,127	97,764	82,845
Adult/continuing	2	2	-	-
Other	351,220	150,698	122,990	122,990
Support services:				
Pupil	1,086,959	939,321	974,367	903,721
Instructional staff	903,754	790,974	840,668	822,678
Board of education	95,617	95,617	104,085	104,085
Administration	1,506,925	1,377,204	1,443,680	1,312,540
Fiscal	396,588	395,223	368,834	366,515
Operations and maintenance	2,101,293	1,940,925	1,883,890	1,809,955
Pupil transportation	1,011,083	979,010	1,036,649	1,035,114
Central	453,670	361,430	193,057	123,307
Operations of non-instructional services	66,766	10,431	229,742	8,074
Extracurricular activities	631,269	486,735	633,995	460,132
Food service operations	762,904	7,369	818,558	70,554
Total expenses	<u>\$ 20,006,062</u>	<u>\$ 17,703,766</u>	<u>\$ 18,834,115</u>	<u>\$ 16,538,119</u>

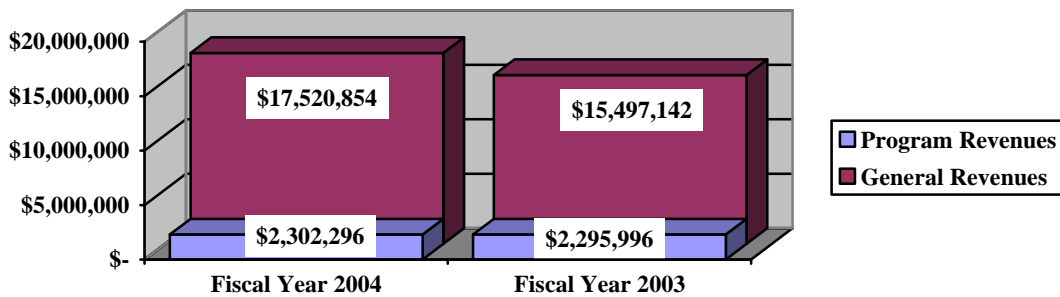
**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

The dependence upon tax and other general revenues for governmental activities is apparent, 93.91 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.49 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$6,268,067, which is higher than last year's total of \$6,063,816. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 4,321,584	\$ 3,883,341	\$ 438,243
Permanent Improvement	1,634,333	1,921,390	(287,057)
Other Governmental	<u>312,150</u>	<u>259,085</u>	<u>53,065</u>
Total	<u>\$ 6,268,067</u>	<u>\$ 6,063,816</u>	<u>\$ 204,251</u>

General Fund

The District's general fund balance increased \$438,243. The increase in fund balance can be attributed to property tax and intergovernmental revenue increases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

	<u>2004</u>	<u>2003</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 7,639,920	\$ 7,031,758	8.65 %
Tuition	71,839	125,431	(42.73) %
Earnings on investments	140,291	168,193	(16.59) %
Intergovernmental	9,207,230	7,846,991	17.33 %
Other revenues	<u>24,219</u>	<u>38,346</u>	(36.84) %
 Total	 <u>\$ 17,083,499</u>	 <u>\$ 15,210,719</u>	 12.31 %
<u>Expenditures</u>			
Instruction	\$ 9,531,931	\$ 9,267,966	2.85 %
Support services	6,723,490	6,348,225	5.91 %
Operation of non-instructional services	11,756	8	146,850.00 %
Extracurricular activities	353,282	335,043	5.44 %
Facilities acquisition and construction	<u>120</u>	<u>9,320</u>	(98.71) %
 Total	 <u>\$ 16,620,579</u>	 <u>\$ 15,960,562</u>	 4.14 %

Permanent Improvement Fund

The District's permanent improvement fund balance decreased \$287,057. The decrease in fund balance can be attributed primarily to facilities acquisition and construction expenditure increases. The table that follows assists in illustrating the financial activities and fund balance of the permanent improvement fund.

	<u>2004</u>	<u>2003</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 261,309	\$ 203,679	28.29 %
Earnings on investments	6,311	7,826	(19.36) %
Intergovernmental	<u>253,736</u>	<u>250,534</u>	1.28 %
 Total	 <u>\$ 521,356</u>	 <u>\$ 462,039</u>	 12.84 %
<u>Expenditures</u>			
Instruction	\$ 3,091	\$ 32,291	(90.43) %
Support services	314,480	122,479	156.76 %
Facilities acquisition and construction	<u>490,842</u>	<u>236,060</u>	107.93 %
 Total	 <u>\$ 808,413</u>	 <u>\$ 390,830</u>	 106.85 %

General Fund Budgeting Highlights

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

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

During the course of fiscal 2004, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$15,535,000. Actual revenues and other financing sources for fiscal 2004 was \$16,870,460. This represents a \$1,335,460 increase over final budgeted revenues caused by greater than expected property taxes and state foundation aid.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$17,191,112. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$16,712,519, which was \$478,593 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$11,032,125 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 372,525	\$ 372,525
Land improvements	463,247	500,160
Building and improvements	9,584,123	10,051,647
Furniture and equipment	110,203	141,758
Vehicles	<u>502,027</u>	<u>396,239</u>
Total	<u>\$ 11,032,125</u>	<u>\$ 11,462,329</u>

Total additions to capital assets for 2004 were \$203,503. The overall decrease in capital assets of \$430,204 is primarily due to the recording of \$631,541 in depreciation expense for fiscal 2004.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$144,804 in outstanding notes payable.

At June 30, 2004, the District's overall legal debt margin was \$27,148,360 with an unvoted debt margin of \$303,257.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon the tax revenue from the nuclear power plant that is located in the district. We have experienced a reduction of 1.5 million dollars due to the re-calculation of the apportionment of nuclear fuel.

State aid will show no increase or decrease as we will always rely heavily on the property tax relief fund. Any increase or decrease in state aid is automatically offset by this fund to keep us at a zero net sum gain. With this new loss, the District is in a situation where an operating levy may have to be passed by District voters in 2004 or 2005 in order for the District to obtain the necessary funds to meet its operating expenses in fiscal year 2006. Without the passage of an operating levy, future reduction in staffing appears inevitable.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jeff Dornbusch, Treasurer, Benton-Carroll-Salem Local School District, 11685 West State Route 163, Oak Harbor, Ohio 43449-1278.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 7,644,272
Receivables:	
Taxes	6,744,936
Accounts	490
Intergovernmental	80,694
Accrued interest	37,657
Prepayments	14,368
Materials and supplies inventory	86,934
Capital assets:	
Land	372,525
Depreciable capital assets, net	<u>10,659,600</u>
Total capital assets, net	<u>11,032,125</u>
 Total assets	 <u>25,641,476</u>
 Liabilities:	
Accounts payable	124,848
Accrued wages and benefits	1,310,154
Pension obligation payable	464,789
Intergovernmental payable	93,711
Deferred revenue	5,696,285
Long-term liabilities:	
Due within one year	340,634
Due in more than one year	<u>1,700,557</u>
 Total liabilities	 <u>9,730,978</u>
 Net Assets:	
Invested in capital assets, net of related debt	10,887,321
Restricted for:	
Capital projects	1,653,146
Other purposes	624,183
Unrestricted	<u>2,745,848</u>
 Total net assets	 <u><u>\$ 15,910,498</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense) and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$ 8,809,523	\$ 196,247	\$ 83,498	\$ 970	\$ (8,528,808)
Special	1,748,447	-	175,555	-	(1,572,892)
Vocational	80,042	12,915	-	-	(67,127)
Adult/continuing	2	-	-	-	(2)
Other	351,220	197,161	3,361	-	(150,698)
Support services:					
Pupil	1,086,959	-	147,638	-	(939,321)
Instructional staff	903,754	-	112,780	-	(790,974)
Board of education	95,617	-	-	-	(95,617)
Administration	1,506,925	37,162	92,559	-	(1,377,204)
Fiscal	396,588	-	-	1,365	(395,223)
Operations and maintenance	2,101,293	-	23	160,345	(1,940,925)
Pupil transportation	1,011,083	-	-	32,073	(979,010)
Central	453,670	-	33,257	58,983	(361,430)
Operation of non-instructional services	66,766	11,949	44,386	-	(10,431)
Extracurricular activities	631,269	143,687	847	-	(486,735)
Food service operations	762,904	512,016	243,519	-	(7,369)
Total governmental activities	<u>\$ 20,006,062</u>	<u>\$ 1,111,137</u>	<u>\$ 937,423</u>	<u>\$ 253,736</u>	<u>(17,703,766)</u>
General Revenues:					
Property taxes levied for:					
General purposes					7,853,944
Capital projects					271,595
Grants and entitlements not restricted to specific programs					9,207,230
Investment earnings					140,755
Miscellaneous					47,330
Total general revenues					<u>17,520,854</u>
Change in net assets					(182,912)
Net assets at beginning of year					<u>16,093,410</u>
Net assets at end of year					<u>\$ 15,910,498</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 5,233,633	\$ 1,692,279	\$ 277,561	\$ 7,203,473
Receivables:				
Taxes	6,499,123	245,813	-	6,744,936
Accounts	20	-	470	490
Intergovernmental	-	-	80,694	80,694
Accrued interest	37,657	-	-	37,657
Prepayments	13,643	-	725	14,368
Materials and supplies inventory	65,256	-	21,678	86,934
Restricted assets:				
Equity in pooled cash and cash equivalents	440,799	-	-	440,799
Total assets	<u>\$ 12,290,131</u>	<u>\$ 1,938,092</u>	<u>\$ 381,128</u>	<u>\$ 14,609,351</u>
Liabilities:				
Accounts payable	\$ 35,340	\$ 69,843	\$ 19,665	\$ 124,848
Accrued wages and benefits	1,292,054	-	18,100	1,310,154
Compensated absences payable	92,376	-	-	92,376
Pension obligation payable	296,988	-	27,329	324,317
Intergovernmental payable	89,827	-	3,884	93,711
Retirement incentive payable	165,000	-	-	165,000
Deferred revenue	5,996,962	233,916	-	6,230,878
Total liabilities	<u>7,968,547</u>	<u>303,759</u>	<u>68,978</u>	<u>8,341,284</u>
Fund Balances:				
Reserved for encumbrances	246,534	135,873	48,059	430,466
Reserved for materials and supplies inventory	65,256	-	21,678	86,934
Reserved for property tax unavailable for appropriation	539,818	11,897	-	551,715
Reserved for prepayments	13,643	-	725	14,368
Reserved for school bus purchases	19,117	-	-	19,117
Reserved for budget stabilization	95,107	-	-	95,107
Reserved for instructional materials	326,575	-	-	326,575
Unreserved, undesignated, reported in:				
General fund	3,015,534	-	-	3,015,534
Special revenue funds	-	-	241,688	241,688
Capital projects funds	-	1,486,563	-	1,486,563
Total fund balances	<u>4,321,584</u>	<u>1,634,333</u>	<u>312,150</u>	<u>6,268,067</u>
Total liabilities and fund balances	<u>\$ 12,290,131</u>	<u>\$ 1,938,092</u>	<u>\$ 381,128</u>	<u>\$ 14,609,351</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 6,268,067
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,032,125
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 496,936	
Accrued interest	<u>37,657</u>	
Total		534,593
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,639,011)	
Note payable	(144,804)	
Pension benefit obligation	<u>(140,472)</u>	
Total		<u>(1,924,287)</u>
Net assets of governmental activities		<u><u>\$ 15,910,498</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,639,920	\$ 261,309	\$ -	\$ 7,901,229
Tuition	71,839	-	-	71,839
Earnings on investments	140,291	6,311	39	146,641
Charges for services	-	-	703,474	703,474
Extracurricular	12,915	-	213,999	226,914
Classroom materials and fees	557	-	101,032	101,589
Other local revenues	10,747	-	43,904	54,651
Intergovernmental - State	9,170,477	253,736	148,972	9,573,185
Intergovernmental - Federal	36,753	-	837,210	873,963
Total revenue	<u>17,083,499</u>	<u>521,356</u>	<u>2,048,630</u>	<u>19,653,485</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,682,508	3,091	266,847	7,952,446
Special	1,621,963	-	182,672	1,804,635
Vocational	80,042	-	-	80,042
Adult/continuing	-	-	2	2
Other	147,418	-	203,802	351,220
Support Services:				
Pupil	977,594	-	146,924	1,124,518
Instructional staff	812,778	-	80,659	893,437
Board of education	95,549	-	-	95,549
Administration	1,343,252	-	139,461	1,482,713
Fiscal	392,969	4,348	-	397,317
Operations and maintenance	1,961,598	20,025	209	1,981,832
Pupil transportation	990,467	102,185	-	1,092,652
Central	149,283	187,922	82,050	419,255
Operation of non-instructional services	11,756	-	52,326	64,082
Food service operations	-	-	725,732	725,732
Extracurricular activities	353,282	-	169,365	522,647
Facilities acquisition and construction	120	490,842	144,804	635,766
Total expenditures	<u>16,620,579</u>	<u>808,413</u>	<u>2,194,853</u>	<u>19,623,845</u>
Excess (deficiency) of revenues over (under) expenditures	<u>462,920</u>	<u>(287,057)</u>	<u>(146,223)</u>	<u>29,640</u>
Other financing sources (uses):				
Premium on bonds and notes sold	-	-	144,804	144,804
Transfers in	-	-	58,500	58,500
Transfers (out)	(58,500)	-	-	(58,500)
Proceeds from sale of capital assets	62	-	-	62
Total other financing sources (uses)	<u>(58,438)</u>	<u>-</u>	<u>203,304</u>	<u>144,866</u>
Net change in fund balances	404,482	(287,057)	57,081	174,506
Fund balances at beginning of year	3,883,341	1,921,390	259,085	6,063,816
Increase (decrease) in reserve for inventory	33,761	-	(4,016)	29,745
Fund balances at end of year	<u>\$ 4,321,584</u>	<u>\$ 1,634,333</u>	<u>\$ 312,150</u>	<u>\$ 6,268,067</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	174,506
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$631,541) exceeds capital outlays (\$203,503) in the current period.		(428,038)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(2,166)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		169,665
Proceeds of loans are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(144,804)
Some expenses reported on the statement of activities, such as compensated absences, retirement incentive, and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		18,180
Governmental funds report expenditures for inventory when purchased, however, on the statement of activities they are reported as an expense when consumed.		<u>29,745</u>
Change in net assets of governmental activities	\$	<u><u>(182,912)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 6,870,000	\$ 6,870,000	\$ 7,424,525	\$ 554,525
Tuition	65,900	65,900	71,839	5,939
Earnings on investments	128,692	128,692	140,291	11,599
Extracurricular	11,847	11,847	12,915	1,068
Classroom materials and fees	511	511	557	46
Other local revenues	10,833	10,833	11,809	976
Intergovernmental - State	8,412,310	8,412,310	9,170,476	758,166
Intergovernmental - Federal	33,714	33,714	36,753	3,039
Total revenue	<u>15,533,807</u>	<u>15,533,807</u>	<u>16,869,165</u>	<u>1,335,358</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,859,400	7,859,400	7,639,962	219,438
Special	1,675,577	1,675,577	1,628,794	46,783
Vocational	82,883	82,883	80,569	2,314
Other	165,971	165,971	161,337	4,634
Support Services:				
Pupil	959,587	959,587	932,795	26,792
Instructional staff	864,344	864,344	840,211	24,133
Board of education	110,620	110,620	107,531	3,089
Administration	1,338,825	1,338,825	1,301,444	37,381
Fiscal	406,268	406,268	394,925	11,343
Operations and maintenance	2,144,201	2,144,201	2,084,334	59,867
Pupil transportation	1,013,498	1,013,498	985,201	28,297
Central	149,953	149,953	145,766	4,187
Extracurricular activities	361,112	361,112	351,030	10,082
Facilities acquisition and construction	123	123	120	3
Total expenditures	<u>17,132,362</u>	<u>17,132,362</u>	<u>16,654,019</u>	<u>478,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,598,555)</u>	<u>(1,598,555)</u>	<u>215,146</u>	<u>1,813,701</u>
Other financing sources (uses):				
Refund of prior year expenditures	1,135	1,135	1,233	98
Refund of prior year receipts	(250)	(250)	-	250
Proceeds from sale of capital assets	57	57	62	5
Transfers (out)	(58,500)	(58,500)	(58,500)	-
Total other financing sources (uses)	<u>(57,558)</u>	<u>(57,558)</u>	<u>(57,205)</u>	<u>353</u>
Net change in fund balance	(1,656,113)	(1,656,113)	157,941	1,814,054
Fund balance at beginning of year	4,816,491	4,816,491	4,816,491	-
Prior year encumbrances appropriated	362,140	362,140	362,140	-
Fund balance at end of year	<u><u>\$ 3,522,518</u></u>	<u><u>\$ 3,522,518</u></u>	<u><u>\$ 5,336,572</u></u>	<u><u>\$ 1,814,054</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 57,645
Accounts receivable	<u>537</u>
Total assets	<u><u>\$ 58,182</u></u>
Liabilities:	
Accounts payable	\$ 5,649
Intergovernmental payable	1,178
Due to students	<u>51,355</u>
Total liabilities	<u><u>\$ 58,182</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Benton-Carroll-Salem Local School District (the District) is located in Ottawa County, in Oak Harbor, Ohio. The District was established in the early 1970s through the consolidation of existing land areas and school districts. The District currently serves an area of approximately 106 square miles and includes all of the Village of Oak Harbor, Graytown, and Rocky Ridge, and all or portions of Benton, Carroll, and Salem Townships.

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District currently operates 6 instructional buildings, 1 administrative building, and a bus garage. The District employs 115 non-certified and 140 certified (including administrative) full-time and part-time employees to provide services to approximately 1,986 students in grades K through 12 and various community groups, which ranks it 277 out of approximately 613 public school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. All revenues are generated from a combination of state funding and annual fee per student charged to participating districts. The District paid \$45,524 to NOECA for services in fiscal year 2004. Financial information is available from the Erie County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments (BACG)

The BACG consists of twenty-six school districts representing seven counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca, and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through BACG are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of one elected representative from each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms. Financial information is available from the Erie County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northwestern Ohio Educational Research Council, Incorporated

The Northwestern Ohio Educational Research Council, Inc. is a nonprofit organization operated under the direction of a Board of Directors. The Council was formed to provide conferences and training to personnel of the participating districts. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. To obtain financial information write to the Northwestern Ohio Educational Research Council, Inc. David G. Elsass, Treasurer, at P.O. Box 456, Ashland, Ohio 44805.

The District also participates in two public entity risk sharing pools, described in Note 10.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

The Executive Director of OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating Districts pay an enrollment fee to the Plan to cover the costs of the program.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Permanent Improvement Fund - A fund used to account for all transactions related to the acquiring, constructing, or improving of permanent improvements as authorized by Chapter 5705, Revised Code.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise or internal service funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program, or department and therefore

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

D. Basis of Accounting

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

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

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

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Ottawa County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states

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the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the

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funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$140,291, which includes \$35,198 assigned from other District funds.

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

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

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories for governmental funds are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal 2004, the District maintained its capitalization threshold at \$10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." The District has no interfund receivables/payables as of June 30, 2004.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the

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outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization and to create a reserve for instructional materials. In addition, the District reports restricted assets for school bus purchases. See Note 16 for details.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficit:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title I - Migrant	\$ 175

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

Interim monies 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 or 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;

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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 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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

Cash on hand: At fiscal year-end, the District had \$4,150 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$7,059,015 and the bank balance was \$7,304,024. These balances included \$6,500,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$2,099,190 was covered by collateral held by a qualified third party in the name of the District and \$4,804,834 was covered by collateral held by a third party trustee pursuant to Section 135.181 of the Ohio Revised Code in collateral pools securing all public funds on deposit with the District's depositories.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the

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District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Reported Amount</u>	<u>Fair Value</u>
Investment in STAR Ohio	\$ 638,752	\$638,752
Total investments	<u>\$ 638,752</u>	<u>\$638,752</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,701,917	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(638,752)	638,752
Cash on hand	<u>(4,150)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 7,059,015</u>	<u>\$ 638,752</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	<u>\$ 58,500</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide financials.

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NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$539,818 in the general fund, and \$11,897 in the Permanent Improvement capital projects fund. The amount available for advance at June 30, 2003 was \$324,423 in the general fund, and \$7,215 in the Permanent Improvement capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$202,098,220	61.65%	\$ 224,825,080	74.14%
Public utility personal property	113,464,500	34.61%	68,476,850	22.58%
Tangible personal property	<u>12,275,417</u>	<u>3.74%</u>	<u>9,955,443</u>	<u>3.28%</u>
Total	<u>\$327,838,137</u>	<u>100.00</u>	<u>\$ 303,257,373</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 35.13		\$ 36.13	
Permanent improvement	1.20		1.20	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes	\$ 6,744,936
Accounts	490
Intergovernmental	80,694
Accrued interest	<u>37,657</u>
Total	<u>\$ 6,863,777</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

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	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 372,525	\$ -	\$ -	\$ 372,525
<i>Capital assets, being depreciated:</i>				
Land improvements	1,544,750	-	-	1,544,750
Building and improvements	19,773,414	-	-	19,773,414
Furniture and equipment	508,548	-	(155,230)	353,318
Vehicles	<u>1,614,594</u>	<u>203,503</u>	<u>(66,779)</u>	<u>1,751,318</u>
Total capital assets, being depreciated	<u>23,441,306</u>	<u>203,503</u>	<u>(222,009)</u>	<u>23,422,800</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,044,590)	(36,913)	-	(1,081,503)
Building and improvements	(9,721,767)	(467,524)	-	(10,189,291)
Furniture and equipment	(366,790)	(29,389)	153,064	(243,115)
Vehicles	<u>(1,218,355)</u>	<u>(97,715)</u>	<u>66,779</u>	<u>(1,249,291)</u>
Total accumulated depreciation	<u>(12,351,502)</u>	<u>(631,541)</u>	<u>219,843</u>	<u>(12,763,200)</u>
Governmental activities capital assets, net	<u>\$ 11,462,329</u>	<u>\$ (428,038)</u>	<u>\$ (2,166)</u>	<u>\$ 11,032,125</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 357,064
<u>Support Services:</u>	
Administration	25,222
Fiscal	1,256
Operations and Maintenance	13,893
Pupil Transportation	83,822
Central	15,196
Operation of Non-Instructional Services	1,906
Extracurricular Activities	107,960
Food Service Operations	<u>25,222</u>
Total depreciation expense	<u>\$ 631,541</u>

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

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	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>Other Long-Term Obligations:</u>					
Compensated absences	\$ 1,649,127	\$ 286,204	\$ (203,944)	\$ 1,731,387	\$ 175,634
Retirement incentive	60,000	165,000	(60,000)	165,000	165,000
Energy conservation loan	<u>-</u>	<u>144,804</u>	<u>-</u>	<u>144,804</u>	<u>-</u>
Total long-term obligations	<u>\$ 1,709,127</u>	<u>\$ 596,008</u>	<u>\$ (263,944)</u>	<u>\$ 2,041,191</u>	<u>\$ 340,634</u>

Energy conservation loan – A \$500,000 energy conservation loan was issued on January 29, 2004, matures on January 29, 2009, and carries an interest rate of 3.2 percent. As of June 30, 2004 \$144,804 has been drawn down on the loan. Loan repayments consist of semi-annual payments of \$50,000 plus interest. The loan was issued in order to provide for energy improvements to District buildings. The loan is a general obligation of the District and is accounted for on the statement of net assets. The source of payment is derived through the energy savings attained as a result of the energy improvements.

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$27,293,164, an unvoted debt margin of \$303,257, and an energy conservation debt margin of \$2,584,512.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. For fiscal year 2004, the District contracted with private carriers for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy. The private carrier also covers boiler and machinery with a \$1,000 deductible and a \$30,000,000 limit.

Professional liability is provided by Todd & Associates with a zero deductible, \$1,000,000 single occurrence limit, and \$2,000,000 annual aggregate. The District is also protected by Todd & Associates with an umbrella liability coverage of \$10,000,000. Vehicles are covered by Todd & Associates with a \$1,000 deductible for comprehensive and for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from fiscal 2003.

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B. OASBO Workers' Compensation Group Rating

For fiscal year 2004, the District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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 Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Group Health Insurance

The District has joined together with other school districts in the area to form the San-Ott Schools Employee Welfare Benefit Association (the "Association"), whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$100,000 and aggregate claims in excess of 120 percent of expected claims.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$253,582, \$218,127, and \$137,903, respectively; 46.05 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$136,810 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for pension obligations for the fiscal

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

years ended June 30, 2004, 2003, and 2002 were \$1,115,367, \$1,116,259, and \$783,911, respectively; 82.94 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$190,257 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$85,797 during fiscal 2004.

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

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

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$176,396 during the 2004 fiscal year.

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - OTHER EMPLOYEE BENEFITS

Retirement Incentive

The District has entered into a Retirement Incentive plan whereby, upon election, a teacher or administrator reaching his/her first year of retirement eligibility (with a minimum of thirty years of service credit with STRS, and no less than ten years of service with the District by the effective date of retirement) is entitled to receive, in addition to the retirement pay currently provided under the labor agreement, the amount of \$10,000.

The retirees will receive the \$10,000 in January of the calendar year following the year of retirement. A liability of \$165,000 for the retirement incentive has been recorded as a component of long-term liabilities on the statement of net assets. The obligation will ultimately be paid from the fund in which the employee was paid.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 157,941
Net adjustment for revenue accruals	214,334
Net adjustment for expenditure accruals	(304,420)
Net adjustment for other sources/uses	(1,233)
Adjustment for encumbrances	<u>337,860</u>
 GAAP basis	 <u>\$ 404,482</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ 155,893	\$ -	\$ 95,107
Current year set-aside requirement	266,245	266,245	-
Current year offsets	-	(256,627)	
Qualifying disbursements	<u>(95,563)</u>	<u>(21,173)</u>	<u>-</u>
Total	<u>\$ 326,575</u>	<u>\$ (11,555)</u>	<u>\$ 95,107</u>
Balance carried forward to FY 2005	<u>\$ 326,575</u>	<u>\$ -</u>	<u>\$ 95,107</u>

Monies representing BWC refunds that were received prior to April 10, 2001, are included as a component of the budget stabilization reserve in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the instructional materials reserve and the capital acquisition reserve.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	\$ 95,107
Amount restricted for instructional materials	326,575
Amount restricted for school bus purchases	<u>19,117</u>
Total restricted assets	<u>\$ 440,799</u>

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**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
UNITED STATES DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
National School Lunch Program	048926-LLP	10.555
School Breakfast Program	048926-VGS1 048926-05PU	10.553
Total Department of Agriculture - Nutrition Cluster		
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Special Education Grants to States (IDEA Part B)	048926-6BSF-04 048926-6BSF-03	84.027
Total Special Education Grants to States		
Migrant Education Basis State Grant Program	048926-MGS1-04	84.011
Grants to Local Educational Agencies (ESEA Title I)	048926-C1S1-04 048926-C1S1-04	84.010
Total Title I		
Innovative Educational Program Strategies	048926-C2S10-03 048926-C2S10-04	84.298
Total Innovative Educational Program Strategies		
Drug-Free Schools Grant	048926-DRS1-04 048926-DRS1-03	84.186
Total Drug-Free Schools Grant		
Improving Teacher Quality	048926-TRS1-03 048926-TRS1-04	84.367
Total Improving Teacher Quality		

Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
	\$ 58,678		\$ 58,678
\$ 142,056		\$ 142,056	
5,151		5,151	
15,947		15,947	
163,154	58,678	163,154	58,678
300,517		294,503	
300,517		1,522	
		296,025	
7,200		7,200	
169,922		168,601	
169,922		5,188	
		173,789	
12,982		5,814	
12,982		11,555	
		17,369	
3,228		2,541	
2,409		4,809	
5,637		7,350	
29,350		3,122	
29,350		24,758	
		27,880	

(Continued)

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
Technology Literacy Challenge Grant	048926-TJS1-03	84.318
Total Technology Literacy Challenge Grant	048926-TJS1-04	
Title VI-R Class Size Reduction	048926-CRS1	84.340
Total Department of Education		
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>		
Medical Assistance Program	N/A	93.778
Total Department of Health and Human Services		
Totals		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
1,467		1,720	
5,317		3,210	
6,784		4,930	
		3,803	
532,392		538,346	
16,553		16,553	
16,553		16,553	
\$ 712,099	\$ 58,678	\$ 718,053	\$ 58,678

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1278

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 the Benton-Carroll-Salem Local School District, Ottawa County, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 3, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 3, 2005, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Benton-Carroll-Salem Local School District
Ottawa County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June, 3, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1278

To the Board of Education:

Compliance

We have audited the compliance of the Benton-Carroll-Salem Local School District, Ottawa County, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Benton-Carroll-Salem Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

June 3, 2005

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster CFDA #'s 10.550, 10.553, & 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT

OTTAWA 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
JULY 14, 2005**