



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S 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, (the District), as of and for the year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton-Carroll-Salem Local School District, Ottawa County, as of June 30, 2003, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* and Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and, as described in Note 2H, modified its capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's'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.



Betty Montgomery
Auditor of State

March 26, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities decreased \$1,106,322 which represents a 6.64 percent decrease from 2002.
- General revenues accounted for \$15,497,142 in revenue or 87.10 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,295,996 or 12.90 percent of total revenues of \$17,793,138.
- The District had \$18,899,460 in expenses related to governmental activities; only \$2,295,996 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 \$15,497,142 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 \$15,210,719 in revenues and \$16,000,562 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance, decreased \$800,826 from \$4,684,167 to \$3,883,341.
- The District's other major governmental fund is the permanent improvement fund. The permanent improvement fund had \$462,039 in revenues and \$390,830 in expenditures. During fiscal 2003, the permanent improvement fund's fund balance, increased \$71,209 from \$1,850,181 to \$1,921,390.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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.

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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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

The analysis of the District's major governmental funds begins on page 11. 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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Governmental Activities 2003
Assets	
Current and other assets	\$ 14,620,540
Capital assets	<u>11,462,329</u>
<i>Total assets</i>	<u>26,082,869</u>
Liabilities	
Current liabilities	8,561,632
Long-term liabilities	<u>1,709,127</u>
<i>Total liabilities</i>	<u>10,270,759</u>
Net Assets	
Invested in capital assets	11,462,329
Restricted	2,525,636
Unrestricted	<u>2,105,445</u>
<i>Total net assets</i>	<u><u>\$ 16,093,410</u></u>

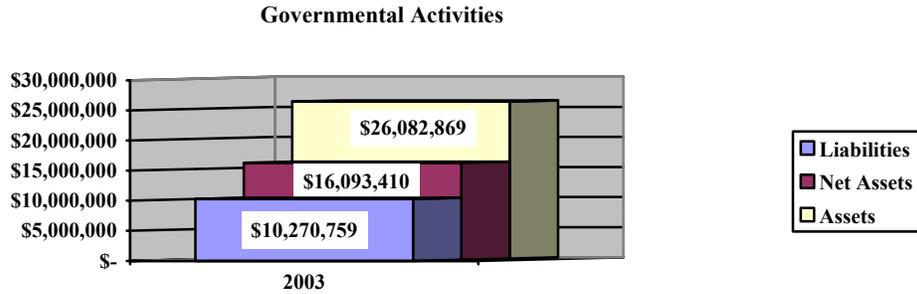
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$16,093,410. At year-end, unrestricted net assets were \$2,105,445.

At year-end, capital assets represented 43.95 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2003, were \$11,462,329. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. The District had no debt as of June 30, 2003.

A portion of the District's net assets, \$2,525,636, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,105,445 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
	<hr/>
Revenues	
Program revenues:	
Charges for services and sales	\$ 1,184,984
Operating grants and contributions	827,421
Capital grants and contributions	283,591
General revenues:	
Property taxes	7,439,315
Grants and entitlements	7,846,991
Investment earnings	191,767
Other	19,069
	<hr/>
Total revenues	<hr/> 17,793,138 <hr/>

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Change in Net Assets (Continued)

	Governmental Activities <u>2003</u>
Expenses	
Program expenses:	
Instruction:	
Regular	8,574,133
Special	1,511,703
Vocational	97,764
Other	122,990
Support services:	
Pupil	974,367
Instructional staff	840,668
Board of education	104,085
Administration	1,443,680
Fiscal	368,834
Operations and maintenance	1,883,890
Pupil transportation	1,036,649
Central	193,057
Operations of non-instructional services	229,742
Food service operations	818,558
Extracurricular activities	633,995
	<u>18,834,115</u>
Total expenses	<u>18,834,115</u>
Decrease in net assets	<u>\$ (1,040,977)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$1,040,977. This was a result of reduced property taxes of \$4,200,000 due to the temporary closing and reevaluation of the Davis-Besse Nuclear power plant and increasing costs to transport special needs students. Total governmental expenses of \$18,834,115 were offset by program revenues of \$2,295,996 and general revenues of \$15,497,142. Program revenues supported 12.19 percent of the total governmental expenses.

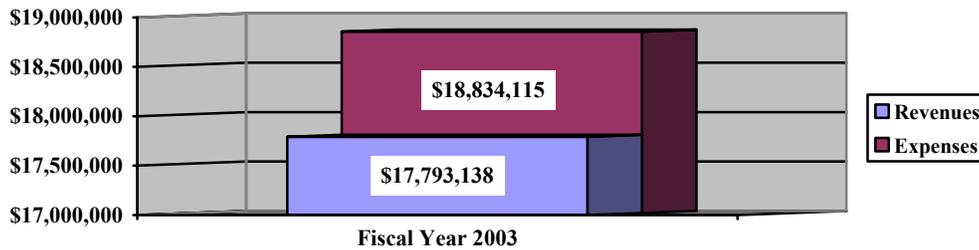
**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 85.91 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 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
	<u>2003</u>	<u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 8,574,133	\$ (7,958,375)
Special	1,511,703	(1,357,234)
Vocational	97,764	(82,845)
Other	122,990	(122,990)

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

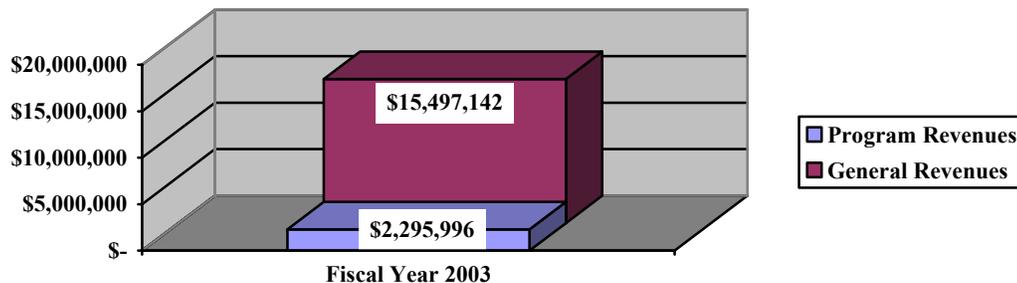
Governmental Activities (Continued)

	Total Cost of Services 2003	Net Cost of Services 2003
	<u> </u>	<u> </u>
Program expenses		
Support services:		
Pupil	974,367	(903,721)
Instructional staff	840,668	(822,678)
Board of education	104,085	(104,085)
Administration	1,443,680	(1,312,540)
Fiscal	368,834	(366,515)
Operations and maintenance	1,883,890	(1,809,955)
Pupil transportation	1,036,649	(1,035,114)
Central	193,057	(123,307)
Operations of non-instructional services	229,742	(8,074)
Food service operations	818,558	(70,554)
Extracurricular activities	633,995	(460,132)
	<u> </u>	<u> </u>
<i>Total expenses</i>	<u>\$ 18,834,115</u>	<u>\$ (16,538,119)</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 92.38 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.28 percent. The District's taxpayers, as a whole, and state funding are by far the primary support for District's students.

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

Governmental Activities - General and Program Revenues



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$6,063,816, which is lower than last year's total of \$6,926,453. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Restated Fund Balance June 30, 2002	Increase (Decrease)
General	\$ 3,883,341	\$ 4,684,167	\$ (800,826)
Permanent Improvement	1,921,390	1,850,181	71,209
Other Governmental	259,085	392,105	(133,020)
<i>Total</i>	<u>\$ 6,063,816</u>	<u>\$ 6,926,453</u>	<u>\$ (862,637)</u>

General Fund

The District's general fund balance decreased by \$800,826 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to property tax decreases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 Amount	Restated 2002 Amount	Percentage Change
Revenues			
Taxes	\$ 7,031,758	\$ 11,238,433	(37.43) %
Tuition	125,431	106,909	17.33 %
Earnings on investments	168,193	332,418	(49.40) %
Intergovernmental	7,846,991	4,968,484	57.94 %
Other revenues	38,346	21,251	80.44 %
<i>Total</i>	<u>\$ 15,210,719</u>	<u>\$ 16,667,495</u>	(8.74) %

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	2003 Amount	Restated 2002 Amount	Percentage Change
Expenditures			
Instruction	\$ 9,267,966	\$ 9,169,915	1.07 %
Support services	6,348,225	6,132,343	3.52 %
Operation of non-instructional services	8	-	100.00 %
Extracurricular activities	335,043	330,514	1.37 %
Facilities acquisition and construction	9,320	120	7,666.67 %
<i>Total</i>	<u>\$ 15,960,562</u>	<u>\$ 15,632,892</u>	2.10 %

Permanent Improvement Fund

The District's permanent improvement fund balance increased by \$71,209. The increase in fund balance can be attributed to intergovernmental revenue increases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 Amount	2002 Amount	Percentage Change
Revenues			
Taxes	\$ 203,679	\$ 356,686	(42.90) %
Earnings on investments	7,826	19,185	(59.21) %
Intergovernmental	250,534	135,265	85.22 %
<i>Total</i>	<u>\$ 462,039</u>	<u>\$ 511,136</u>	(9.61) %
Expenditures			
Instruction	\$ 32,291	\$ 28,845	11.95 %
Support services	122,479	100,277	22.14 %
Extracurricular activities	236,060	201,889	16.93 %
<i>Total</i>	<u>\$ 390,830</u>	<u>\$ 331,011</u>	18.07 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$14,958,595 which approximates the original budgeted revenues estimate of \$15,054,000. Actual revenues and other financing sources for fiscal 2003 was \$15,389,599. This represents a \$431,003 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$16,946,525 were decreased to \$16,433,185 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$16,265,160, which was \$168,025 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$10,933,916 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 2003 balances compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$ 372,525	\$ 372,525
Land improvements	201,158	238,072
Building and improvements	9,903,652	10,392,508
Furniture and equipment	108,344	181,083
Vehicles	348,237	364,869
Total	<u>\$ 10,933,916</u>	<u>\$ 11,549,057</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Total additions to capital assets for 2003 were \$62,251. The overall decrease in capital assets of \$615,141 is primarily due to the recording of \$677,392 in depreciation expense for fiscal 2003.

Debt Administration

At June 30, 2003, the District had no outstanding notes or bonds.

At June 30, 2003, the District's overall legal debt margin was \$29,505,432 with an unvoted debt margin of \$327,838.

Current Financial Related Activities

For the Future

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 are facing a reduction of 1.6 million dollars in the coming year due to the recalculation 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 reductions in expenditure appear 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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 7,094,492
Receivables:	
Taxes	7,334,626
Accounts	3,572
Intergovernmental	72,974
Accrued interest	43,543
Prepayments	14,144
Materials and supplies inventory	57,189
Restricted assets:	
Equity in pooled cash and cash equivalents	281,300
Capital assets:	
Land	372,525
Depreciable capital assets, net	11,089,804
Total capital assets	11,462,329
<i>Total assets</i>	26,364,169
Liabilities	
Accounts payable	108,464
Accrued wages and benefits	1,244,206
Pension obligation payable	431,728
Intergovernmental payable	46,872
Deferred revenue	6,730,362
Long-term liabilities:	
Due within one year	240,630
Due in more than one year	1,468,497
<i>Total liabilities</i>	10,270,759
Net Assets	
Invested in capital assets	11,462,329
Restricted for:	
Capital projects	1,929,917
Set asides and bus purchase	281,300
Other purposes	216,626
Unrestricted (deficit)	2,203,238
<i>Total net assets</i>	\$ 16,093,410

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses
Governmental activities	
Instruction:	
Regular	\$ 8,574,133
Special	1,511,703
Vocational	97,764
Other	122,990
Support services:	
Pupil.	974,367
Instructional staff	840,668
Board of education	104,085
Administration	1,443,680
Fiscal.	368,834
Operations and maintenance	1,883,890
Pupil transportation.	1,036,649
Central	193,057
Operation of non-instructional services	229,742
Extracurricular activities.	633,995
Food service operations	818,558
<i>Total governmental activities</i>	\$ 18,834,115

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Charges for Services and Sales	Program Revenues		Governmental Activities	Net Revenue (Expense) and Changes in Net Assets
	Operating Grants and Contributions	Capital Grants and Contributions		
\$ 292,727	\$ 151,010	\$ 172,021	\$ (7,958,375)	
-	154,469	-	(1,357,234)	
14,919	-	-	(82,845)	
-	-	-	(122,990)	
-	70,646	-	(903,721)	
-	17,990	-	(822,678)	
-	-	-	(104,085)	
31,018	99,398	724	(1,312,540)	
-	-	2,319	(366,515)	
-	-	73,935	(1,809,955)	
-	-	1,535	(1,035,114)	
-	36,693	33,057	(123,307)	
193,323	28,345	-	(8,074)	
148,129	25,734	-	(460,132)	
504,868	243,136	-	(70,554)	
<u>\$ 1,184,984</u>	<u>\$ 827,421</u>	<u>\$ 283,591</u>	<u>(16,538,119)</u>	

General Revenues:

Property taxes levied for:

General purposes

7,228,671

Capital projects

210,644

Grants and entitlements not restricted

to specific programs

7,846,991

Investment earnings

191,767

Miscellaneous

19,069

Total general revenues

15,497,142

Change in net assets

(1,040,977)

Net assets at beginning of year

17,134,387

Net assets at end of year

\$ 16,093,410

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Permanent Improvements	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash and cash equivalents	\$ 4,897,331	\$ 1,914,175	\$ 282,986	\$ 7,094,492
Receivables:				
Taxes	7,134,099	200,527	-	7,334,626
Accounts	3,190	-	382	3,572
Intergovernmental	-	-	72,974	72,974
Accrued interest	43,543	-	-	43,543
Prepayments	13,514	-	630	14,144
Materials and supplies inventory	31,495	-	25,694	57,189
Restricted assets:				
Equity in pooled cash and cash equivalents	281,300	-	-	281,300
Total assets	\$ 12,404,472	\$ 2,114,702	\$ 382,666	\$ 14,901,840
Liabilities				
Accounts payable	\$ 81,505	\$ -	\$ 26,959	\$ 108,464
Accrued wages and benefits	1,227,804	-	16,402	1,244,206
Pension obligation payable	268,409	-	29,783	298,192
Intergovernmental payable	45,194	-	1,678	46,872
Retirement incentive payable	45,000	-	-	45,000
Deferred revenue	6,853,219	193,312	48,759	7,095,290
Total liabilities	8,521,131	193,312	123,581	8,838,024
Fund Balances				
Reserved for encumbrances	286,829	186,445	80,311	553,585
Reserved for materials and supplies inventory	31,495	-	25,694	57,189
Reserved for property tax unavailable for appropriation	324,423	7,215	-	331,638
Reserved for prepayments	13,514	-	630	14,144
Reserved for school bus purchases	30,300	-	-	30,300
Reserved for budget stabilization	95,107	-	-	95,107
Reserved for instructional materials	155,893	-	-	155,893
Unreserved, undesignated, reported in:				
General fund	2,945,780	-	-	2,945,780
Special revenue funds	-	-	152,450	152,450
Capital projects funds	-	1,727,730	-	1,727,730
Total fund balances	3,883,341	1,921,390	259,085	6,063,816
Total liabilities and fund balances	\$ 12,404,472	\$ 2,114,702	\$ 382,666	\$ 14,901,840

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 6,063,816
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,462,329
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 272,626	
Accrued interest	43,543	
Intergovernmental revenue	48,759	
Total		364,928
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,649,127)	
Pension benefit obligation	(133,536)	
Retirement incentive	(15,000)	
Total		<u>(1,797,663)</u>
<i>Net assets of governmental activities</i>		<u><u>\$ 16,093,410</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes	\$ 7,031,758	\$ 203,679	\$ -	\$ 7,235,437
Tuition	125,431	-	131,887	257,318
Earnings on investments	168,193	7,826	39	176,058
Extracurricular	-	-	209,401	209,401
Other local revenues	38,346	-	46,709	85,055
Charges for services	-	-	684,911	684,911
Intergovernmental - State	7,811,243	250,534	169,601	8,231,378
Intergovernmental - Federal	35,748	-	573,993	609,741
<i>Total revenue</i>	<u>15,210,719</u>	<u>462,039</u>	<u>1,816,541</u>	<u>17,489,299</u>
Expenditures				
Current:				
Instruction:				
Regular	7,675,489	32,291	323,541	8,031,321
Special	1,374,101	-	150,413	1,524,514
Vocational	97,764	-	-	97,764
Other	120,612	-	2,378	122,990
Support Services:				
Pupil	901,029	-	72,686	973,715
Instructional staff	807,020	-	30,861	837,881
Board of education	104,085	-	-	104,085
Administration	1,329,508	1,130	137,580	1,468,218
Fiscal	362,502	3,617	-	366,119
Operations and maintenance	1,898,375	31,052	-	1,929,427
Pupil transportation	883,932	86,680	-	970,612
Central	61,774	-	118,157	179,931
Operation of non-instructional services	8	-	227,019	227,027
Food service operations	-	-	735,931	735,931
Extracurricular activities	335,043	-	188,475	523,518
Facilities acquisition and construction	9,320	236,060	-	245,380
<i>Total expenditures</i>	<u>15,960,562</u>	<u>390,830</u>	<u>1,987,041</u>	<u>18,338,433</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(749,843)</u>	<u>71,209</u>	<u>(170,500)</u>	<u>(849,134)</u>
Other financing sources and (uses)				
Transfers in	-	-	40,000	40,000
Transfers (out)	(40,000)	-	-	(40,000)
<i>Total other financing sources (uses)</i>	<u>(40,000)</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>(789,843)</u>	<u>71,209</u>	<u>(130,500)</u>	<u>(849,134)</u>
<i>Fund balances at beginning of year (restated)</i>	4,684,167	1,850,181	392,105	6,926,453
Decrease in reserve for inventory	(10,983)	-	(2,520)	(13,503)
<i>Fund balances at end of year</i>	<u>\$ 3,883,341</u>	<u>\$ 1,921,390</u>	<u>\$ 259,085</u>	<u>\$ 6,063,816</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2003

Net change in fund balances - total governmental funds \$ (849,134)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period. (549,796)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 251,418

Some expenses reported in 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. 120,038

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed. (13,503)

Change in net assets of governmental activities \$ (1,040,977)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
From local sources:				
Taxes	\$ 7,032,940	\$ 6,911,000	\$ 7,189,725	\$ 278,725
Tuition	122,696	123,102	125,431	2,329
Earnings on investments	187,017	187,636	191,186	3,550
Other local revenues	35,415	35,532	36,204	672
Intergovernmental - State	7,640,903	7,666,180	7,811,243	145,063
Intergovernmental - Federal	34,968	35,084	35,748	664
<i>Total revenue</i>	<u>15,053,939</u>	<u>14,958,534</u>	<u>15,389,537</u>	<u>431,003</u>
Expenditures				
Current:				
Instruction:				
Regular	8,582,904	8,322,914	7,711,479	611,435
Special	1,337,760	1,297,237	1,427,629	(130,392)
Vocational	96,499	93,576	99,125	(5,549)
Other	60,692	58,854	122,378	(63,524)
Support Services:				
Pupil	811,499	786,917	899,743	(112,826)
Instructional staff	922,339	894,400	809,237	85,163
Board of education	117,874	114,303	115,849	(1,546)
Administration	1,182,100	1,146,292	1,344,252	(197,960)
Fiscal	448,261	434,682	363,883	70,799
Operations and maintenance	2,027,544	1,966,126	2,017,073	(50,947)
Pupil transportation	841,371	815,884	903,312	(87,428)
Central	113,099	109,673	65,893	43,780
Extracurricular activities	375,383	364,012	335,987	28,025
Facilities acquisition and construction	9,200	8,921	9,320	(399)
<i>Total expenditures</i>	<u>16,926,525</u>	<u>16,413,791</u>	<u>16,225,160</u>	<u>188,631</u>
<i>Excess of expenditures over revenues</i>	<u>(1,872,586)</u>	<u>(1,455,257)</u>	<u>(835,623)</u>	<u>619,634</u>
Other financing sources (uses)				
Refund of prior year expenditures	61	61	62	1
Refund of prior year receipts	(500)	(485)	-	485
Transfers (out)	(10,000)	(9,697)	(40,000)	(30,303)
Advances (out)	(9,500)	(9,212)	-	9,212
<i>Total other financing sources (uses)</i>	<u>(19,939)</u>	<u>(19,333)</u>	<u>(39,938)</u>	<u>(20,605)</u>
<i>Net change in fund balance</i>	<u>(1,892,525)</u>	<u>(1,474,590)</u>	<u>(875,561)</u>	<u>599,029</u>
<i>Fund balance at beginning of year (restated)</i>	5,385,702	5,385,702	5,385,702	-
Prior year encumbrances appropriated	306,350	306,350	306,350	-
<i>Fund balance at end of year</i>	<u>\$ 3,799,527</u>	<u>\$ 4,217,462</u>	<u>\$ 4,816,491</u>	<u>\$ 599,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	<u>Agency</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 64,686
<i>Total assets</i>	<u>64,686</u>
Liabilities	
Accounts payable	2,512
Intergovernmental payable	1,762
Due to students	60,412
<i>Total liabilities</i>	<u>\$ 64,686</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 102 non-certified and 142 certified (including administrative) full-time and part-time employees to provide services to approximately 2,065 students in grades K through 12 and various community groups, which ranks it 268th out of approximately 740 public and community school districts in Ohio.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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:

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 \$42,195 to NOECA for services in fiscal year 2003. 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 Council. The membership of BACG consists

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. Refer to Note 10.B for further information on this group rating plan.

The San-Ott School Employees Welfare Benefit Association (Consortium)

The ESC participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Consortium is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

C. Basis of Presentation and Measurement Focus

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.

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

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

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 reconciliations 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, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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, 2003, but which were levied to finance fiscal year 2004 operation, 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 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.

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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. During the year, all supplemental appropriations were legally enacted.

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.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for the General Fund at fiscal year-end.

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 2003, 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.

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The District has invested funds in STAR Ohio during fiscal 2003. 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, 2003.

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 funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$168,193, which includes \$44,386 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. On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. Capital Assets

General capital assets are those assets not 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.

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. During fiscal 2003, the District increased its capitalization threshold from \$500 to \$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:

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

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, 2003.

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.

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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, claims and judgments, 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. Bonds 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 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

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legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

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 amounts 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 on set asides required by schools.

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.

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Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. 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 between governmental funds is eliminated in the state of activities.

R. Parochial Schools

Within the District boundaries, St. Boniface School is operated by the Toledo Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a special revenue fund for financial reporting purposes.

S. 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 2003.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial

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statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparisons for the general fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds have been reclassified and are now included as a component of other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

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	General	Permanent Improvement	Nonmajor	Total
Fund balance				
June 30, 2002	\$ 4,699,423	\$ 1,850,181	\$ 225,369	\$ 6,774,973
Fund reclassifications	5,133	-	166,736	171,869
Implementation of GASB Interpretation No. 6	(20,389)	-	-	(20,389)
Adjusted fund balance, June 30, 2002	<u>\$ 4,684,167</u>	<u>\$ 1,850,181</u>	<u>\$ 392,105</u>	<u>\$ 6,926,453</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2002	\$ 6,926,453
GASB 34 adjustments:	
Long-term (deferred) assets	113,510
Capital assets	12,012,125
Long-term liabilities	<u>(1,917,701)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 17,134,387</u>

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	Deficit
<u>Nonmajor Funds</u>	
Management Information System	\$ 207
Title I - Migrant	322

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

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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

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Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 \$4,170 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".

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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 and Reserve Repurchase Agreements*.

Deposits: At year-end, the carrying amount of the District's deposits was \$5,907,777 and the bank balance was \$6,272,426. These balances included \$5,510,014 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$5,872,426 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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 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.

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 1,528,531	\$ 1,528,531

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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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 7,440,478	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(1,528,531)	1,528,531
Cash on hand	(4,170)	-
GASB Statement No. 3	\$ 5,907,777	\$ 1,528,531

5. INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	Amount
Transfers from general fund to:	
Nonmajor Governmental Funds	\$ 40,000

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.

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.

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(Continued)

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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 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-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from 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, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$324,423 in the general fund, and \$7,215 in the Permanent Improvement capital projects fund. The amount available for advance at June 30, 2002 was \$482,390 in the general fund, and \$10,820 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 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 deterred 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.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 198,075,450	62.89%	\$ 202,098,220	61.65%
Public utility personal property	60,798,870	19.31%	113,464,500	34.61%
Tangible personal property	56,050,580	17.80%	12,275,417	3.74%
<i>Total</i>	<u>\$ 314,924,900</u>	<u>100.00%</u>	<u>\$ 327,838,137</u>	<u>100.00%</u>

Tax rate per \$1,000 of assessed valuation:

Operations	\$ 35.13	\$ 35.13
Permanent improvement	1.20	1.20

7. RECEIVABLES

Receivables at June 30, 2003 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:

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Governmental Activities:	
Taxes	\$ 7,334,626
Accounts	3,572
Intergovernmental	72,974
Accrued interest	43,543
	<u>43,543</u>
<i>Total</i>	<u><u>\$ 7,454,715</u></u>

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

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H.)(-\$4,324,845), due to the inclusion of Vo-Ag farm operations (+\$82,969) capital assets as government activities and to depreciate capital assets in accordance with GASB Statement No. 34 (-\$11,893,001).

	Balance 6/30/02	Adjustments	Restated Balance 6/30/02
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 372,525	\$ -	\$ 372,525
Total capital assets, not being depreciated	<u>372,525</u>	<u>-</u>	<u>372,525</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	1,737,519	(192,769)	1,544,750
Buildings and improvements	20,084,462	(311,048)	19,773,414
Furniture and equipment	4,456,971	(3,840,769)	616,202
Vehicles	1,495,525	102,710	1,598,235
Total capital assets, being depreciated	<u>27,774,477</u>	<u>(4,241,876)</u>	<u>23,532,601</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(11,893,001)</u>	<u>(11,893,001)</u>
Governmental activities capital assets, net	<u>\$ 28,147,002</u>	<u>\$ (16,134,877)</u>	<u>\$ 12,012,125</u>

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B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 06/30/02	Additions	Deductions	Balance 06/30/03
Capital assets, not being depreciated:				
Land	\$ 372,525	\$ -	\$ -	\$ 372,525
Capital assets, being depreciated:				
Land improvements	1,544,750	-	-	1,544,750
Building and improvements	19,773,414	-	-	19,773,414
Furniture and equipment	616,202	20,866	(128,520)	508,548
Vehicles	1,598,235	62,251	(45,892)	1,614,594
<i>Total capital assets being depreciated</i>	<u>23,532,601</u>	<u>83,117</u>	<u>(174,412)</u>	<u>23,441,306</u>
Less: accumulated depreciation				
Land improvements	(1,007,878)	(36,712)	-	(1,044,590)
Building and improvements	(9,240,404)	(481,363)	-	(9,721,767)
Furniture and equipment	(459,253)	(36,057)	128,520	(366,790)
Vehicles	(1,185,466)	(78,781)	45,892	(1,218,355)
<i>Total accumulated depreciation</i>	<u>(11,893,001)</u>	<u>(632,913)</u>	<u>174,412</u>	<u>(12,351,502)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 12,012,125</u>	<u>\$ (549,796)</u>	<u>\$ -</u>	<u>\$ 11,462,329</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 362,652
Support Services:	
Administration	28,069
Fiscal	1,256
Operations and Maintenance	16,694
Pupil Transportation	65,473
Central	15,196
Operation of Non-Instructional Services	6,117
Extracurricular Activities	110,689
Facilities Acquisition and Construction	863
Food Service Operations	25,904
<i>Total depreciation expense</i>	<u>\$ 632,913</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

9. LONG-TERM OBLIGATIONS

A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$104,552, from \$1,584,310 to \$1,688,862, due to the implementation of GASB Interpretation No. 6 and fund reclassifications described in Note 3.A. In addition, pension obligations of \$107,360 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$2,808, from \$1,776,670 to \$1,773,862. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

<u>Governmental Activities</u>	Restated Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
Other Long-Term Obligations:					
Compensated absences	\$ 1,688,862	\$ -	\$ (39,735)	\$ 1,649,127	\$ 180,630
Retirement incentive	85,000	-	(25,000)	60,000	60,000
<i>Total other long-term obligations</i>	<u>1,773,862</u>	<u>-</u>	<u>(64,735)</u>	<u>1,709,127</u>	<u>240,630</u>
Total governmental activities	<u>\$ 1,773,862</u>	<u>\$ -</u>	<u>\$ (64,735)</u>	<u>\$ 1,709,127</u>	<u>\$ 240,630</u>

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.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$29,505,432 and an unvoted debt margin of \$327,838.

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 2003, the District contracted with private carriers for property and

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 \$5,000,000. 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 2002.

B. OSBA Worker's Compensation Group Rating

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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, 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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.

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 9 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$218,127, \$137,903, and \$102,570, respectively; 46.41 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$200,304 represents the unpaid contribution for fiscal year 2003.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 9.3 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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5 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 the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,116,259, \$783,911, and \$866,990, respectively; 84.82 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$182,380 represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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 \$85,835 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay has been established at \$14,500. 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. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$179,096 during the 2003 fiscal year.

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 \$15,000.

The retirees will receive the \$15,000 in January of the calendar year following the year of retirement. A liability of \$60,000 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (875,561)
Net adjustment for revenue accruals	(178,818)
Net adjustment for expenditure accruals	(97,542)
Net adjustment for other sources/uses	(62)
Adjustment for encumbrances	<u>362,140</u>
GAAP basis	<u><u>\$ (789,843)</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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.

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, 2003, the reserve activity was as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2002	\$ 75,748	\$ -	\$ 95,107
Current year set-aside requirement	265,181	265,181	-
Current year offsets		(207,284)	
Qualifying disbursements	<u>(185,036)</u>	<u>(159,853)</u>	-
Total	<u>\$ 155,893</u>	<u>\$ (101,956)</u>	<u>\$ 95,107</u>
Balance carried forward to FY 2004	<u>\$ 155,893</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 instruction 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 carrier 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, 2003 follows:

Amount restricted for budget stabilization	\$ 95,107
Amount restricted for instructional materials	155,893
Amount restricted for school bus purchases	<u>30,300</u>
Total restricted assets	<u>\$ 281,300</u>

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

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 048926-VGS1	10.555
School Breakfast Program	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-03 048926-6BSF-02 048926-6BSF-01	84.027
Total Special Education Grants to States		
Migrant Education Basis State Grant Program	048926-MGS1-03	84.011
Grants to Local Educational Agencies (ESEA Title I)	048926-C1S1-03 048926-C1S1-02	84.010
Total Title I		
Innovative Educational Program Strategies	048926-C2S1-03 048926-C2S1-02	84.298
Total Innovative Education Program Strategies		
Drug-Free Schools Grant	048926-DRS1-03 048926-DRS1-02 048926-DRS1-01	84.186
Total Drug-Free Schools Grant		
Improving Teacher Quality	048926-TRS1-03	84.367
Technology Literacy Challenge Grant	048926-TJS1-03	84.318
Schools Renovation Grant	048926-ATS-03	84.352
Title VI-R Class Size Reduction	048926-CRS1-02	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		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
	\$ 52,421		\$ 52,421
\$ 103,998		\$ 103,998	
55,349		55,349	
10,086		10,086	
169,433	52,421	169,433	52,421
1,440		5,009	
221,876		220,354	
223,316		595	
7,200		225,958	
98,371		7,200	
98,371		98,371	
9,739		240	
9,739		98,611	
4,169		3,566	
4,892		156	
9,061		3,722	
9,777		8,536	
510		2,492	
1,561		2,330	
9,929		13,358	
368,953		6,141	
368,953		1,561	
35,748		21,116	
35,748		377,667	
35,748		35,748	
35,748		35,748	
\$ 574,134	\$ 52,421	\$ 582,848	\$ 52,421

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (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 nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities when 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 COMPLIANCE AND ON INTERNAL
CONTROL 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 Benton-Carroll-Salem Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated March 26, 2004, in which we noted the District implemented Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, and modified its capitalization threshold for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 26, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 26, 2004.

This report is intended for the information and use of the management, 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.



Betty Montgomery
Auditor of State

March 26, 2004



**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 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 26, 2004.

This report is intended for the information and use of the management, 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.



Betty Montgomery
Auditor of State

March 26, 2004

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

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):	Special Education Grants to States- CFDA #84.027
<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
MAY 4, 2004**