



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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

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

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

As discussed in Note 3, the District implemented presenting their financial statements in accordance with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

July 16, 2007

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

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

The management's 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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$180,030 which represents a 1.07% increase from 2005.
- General revenues accounted for \$17,404,603 in revenue or 87.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,478,325 or 12.46% of total revenues of \$19,882,928.
- The District had \$19,702,898 in expenses related to governmental activities; \$2,478,325 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,404,603 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$17,280,180 in revenues and \$16,806,762 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$473,418 from \$3,757,451 to \$4,230,869.
- The permanent improvement fund had \$630,798 in revenues and \$461,433 in expenditures. During fiscal year 2006, the permanent improvement fund's fund balance increased \$169,365 from \$1,775,290 to \$1,944,655.

Using these Basic Financial Statements

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, central, extracurricular activities, food service operations, other non-instructional services, and interest and fiscal charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

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

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 a separate Statement of Fiduciary Net

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

Notes to the Basic Financial Statements

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

The District as a Whole

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

The table below provides a summary of the District's net assets for fiscal year 2006.

	Net Assets	Net Assets
	Governmental Activities 2006	Governmental Activities 2005
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 15,728,450	\$15,021,176
Capital assets	<u>11,730,707</u>	<u>12,043,749</u>
Total assets	<u>27,459,157</u>	<u>27,064,925</u>
<u>Liabilities</u>		
Current liabilities	8,660,904	8,258,485
Long-term liabilities	<u>1,789,902</u>	<u>1,978,119</u>
Total liabilities	<u>10,450,806</u>	<u>10,236,604</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,539,344	11,752,386
Restricted	2,754,010	2,163,792
Unrestricted	<u>2,714,997</u>	<u>2,912,143</u>
Total net assets	<u>\$ 17,008,351</u>	<u>\$ 16,828,321</u>

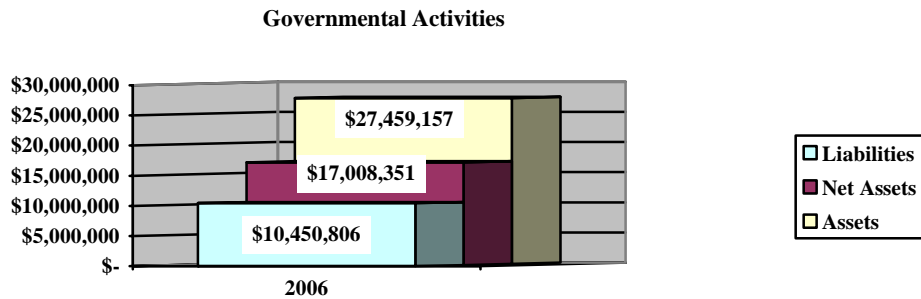
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$17,008,351. Of this total, \$2,754,010 is restricted in use.

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

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

At year-end, capital assets represented 42.72% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$11,539,344. 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.

A portion of the District's net assets, \$2,754,010, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,714,997 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2006. Since the District did not prepare government-wide financial statements using the full accrual basis of accounting for fiscal year 2005, revenue and expense comparisons to fiscal year 2005 are not available. A comparative analysis will be provided in future years when prior year information is available.

	Change in Net Assets
	Governmental Activities <u>2006</u>
Revenues	
Program revenues:	
Charges for services and sales	\$ 1,426,304
Operating grants and contributions	1,052,021
General revenues:	
Property taxes	8,135,606
Grants and entitlements	8,914,418
Investment earnings	335,414
Other	<u>19,165</u>
Total revenues	<u>19,882,928</u>

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

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

	Change in Net Assets
	<u>Governmental Activities 2006</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 8,581,040
Special	1,378,425
Vocational	59,211
Other	210,292
Support services:	
Pupil	1,217,843
Instructional staff	893,844
Board of education	138,444
Administration	1,410,886
Fiscal	438,222
Operations and maintenance	2,240,256
Pupil transportation	1,088,464
Central	363,615
Food service operations	717,099
Operations of non-instructional services	344,676
Extracurricular activities	613,138
Interest and fiscal charges	<u>7,443</u>
Total expenses	<u>19,702,898</u>
Change in net assets	180,030
Net assets at beginning of year (restated)	<u>16,828,321</u>
Net assets at end of year	<u>\$ 17,008,351</u>

Governmental Activities

Net assets of the District's governmental activities increased \$180,030. Total governmental expenses of \$19,702,898 were offset by program revenues of \$2,478,325 and general revenues of \$17,404,603. Program revenues supported 12.58% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 85.75% of total governmental revenue.

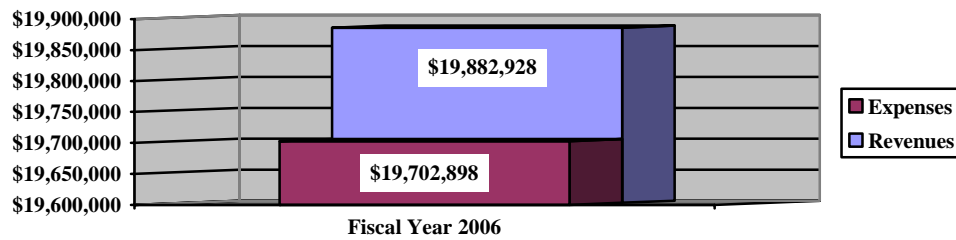
**BENTON CARROLL SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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

The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,228,968 or 51.92% of total governmental expenses for fiscal 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006.

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 2005 have not been presented since they are not available.

**BENTON CARROLL SALEM LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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(Continued)**

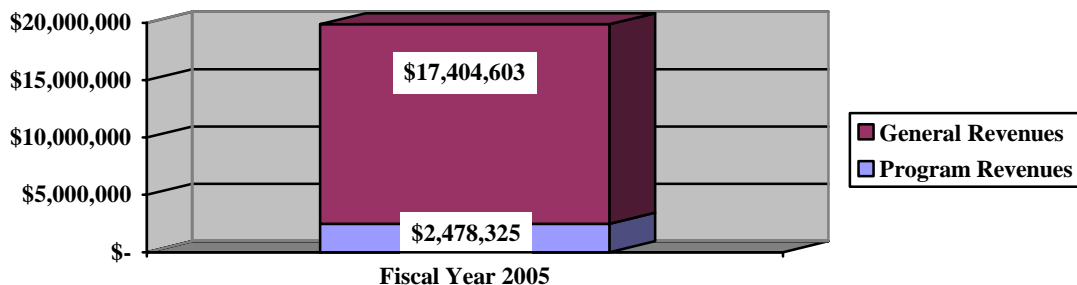
Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses		
Instruction:		
Regular	\$ 8,581,040	\$ 7,958,039
Special	1,378,425	1,219,141
Vocational	59,211	59,211
Other	210,292	210,292
Support services:		
Pupil	1,217,843	865,434
Instructional staff	893,844	864,922
Board of education	138,444	138,444
Administration	1,410,886	1,307,030
Fiscal	438,222	438,222
Operations and maintenance	2,240,256	2,240,256
Pupil transportation	1,088,464	1,088,464
Central	363,615	321,048
Food service operations	717,099	(49,118)
Operations of non-instructional services	344,676	109,009
Extracurricular activities	613,138	446,736
Interest and fiscal charges	<u>7,443</u>	<u>7,443</u>
Total expenses	<u>\$ 19,702,898</u>	<u>\$ 17,224,573</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 92.35% of instructional activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.42%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2006.

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, 2006
UNAUDITED
(Continued)**

The District's Funds

The District's governmental funds reported a combined fund balance of \$6,567,831, which is higher than last year's total of \$5,928,235. The June 30, 2005, 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, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Restated Fund Balance <u>June 30, 2005</u>	Increase (Decrease)	Percentage Change
General	\$ 4,230,869	\$3,757,451	\$ 473,418	12.60 %
Permanent Improvement	1,944,655	1,775,290	169,365	9.54 %
Other Governmental	<u>392,307</u>	<u>395,494</u>	<u>(3,187)</u>	(0.81) %
Total	<u>\$ 6,567,831</u>	<u>\$5,928,235</u>	<u>\$ 639,596</u>	10.79 %

General Fund

The District's general fund balance increased \$473,418 (after a restatement to the June 30, 2005, fund balance which is detailed in Note 3.A. to the basic financial statements). The reason for the increase is increased revenues and cuts in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 7,937,861	\$ 7,602,377	\$ 335,484	4.41 %
Tuition	406,742	49,093	357,649	728.51 %
Earnings on investments	280,518	176,477	104,041	58.95 %
Intergovernmental	8,630,633	9,213,740	(583,107)	(6.33) %
Other revenues	<u>24,426</u>	<u>26,694</u>	<u>(2,268)</u>	(8.50) %
Total	<u>\$ 17,280,180</u>	<u>\$ 17,068,381</u>	<u>\$ 211,799</u>	1.24 %
<u>Expenditures</u>				
Instruction	\$ 9,479,992	\$ 11,288,011	\$ (1,808,019)	(16.02) %
Support services	6,886,903	7,260,264	(373,361)	(5.14) %
Non-instructional services	10,228	11,784	(1,556)	100.00 %
Extracurricular activities	369,519	369,454	65	0.02 %
Facilities acquisition and construction	<u>120</u>	<u>120</u>	<u>-</u>	%
Total	<u>\$ 16,746,762</u>	<u>\$ 18,929,633</u>	<u>\$ (2,182,871)</u>	(11.53) %

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

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

The increase in tuition revenue is due to an increase in open-enrollment students for fiscal year 2006. The increase in earnings on investments revenue is the result of an increase in interest rates for fiscal year 2006. Taxes increased due to increases in property valuations. Intergovernmental revenue decreased as the State provided less support. Expenditures decreased due to staff cuts and other cost saving measures.

Permanent Improvement Fund

The permanent improvement fund had \$630,798 in revenues and \$461,433 in expenditures. During fiscal year 2006, the permanent improvement fund's balance increased \$169,365 from \$1,775,290 to \$1,944,655. The increase was due to revenues consistently greater than expenditures. The largest revenue increases were approximately \$58,000 in property taxes and interest earnings of approximately \$18,000.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues of \$16,437,496 were increased to \$16,769,729 in the final budget. Actual revenues and other financing sources for fiscal 2006 was \$17,229,342. This represents a \$791,846 increase from original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$17,487,347 were increased to \$17,687,346 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$17,527,872, which was \$40,525 more than the original budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$11,730,707 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 2006 balances compared to 2005:

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

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

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

	Governmental Activities	
	2006	2005
Land	\$ 372,525	\$ 372,525
Land improvements	504,110	537,238
Building and improvements	9,953,281	10,276,078
Furniture and equipment	144,556	163,099
Vehicles	756,235	694,809
Total	\$ 11,730,707	\$ 12,043,749

The overall decrease in capital assets of \$313,042 is due to depreciation expense of \$561,988 and disposals of \$12,258 (net of accumulated depreciation) exceeding capital outlays of \$261,204 in the fiscal year.

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

Debt Administration

At June 30, 2006, the District had \$191,363 in Energy Conservation Loans outstanding. Of this total, \$100,000 is due within one year and \$91,363 is due within greater than one year. The following table summarizes the energy conservation loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2006	2005
Energy Conservation Loan	\$ 191,363	\$ 291,363
Total	\$ 191,363	\$ 291,363

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

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon the tax revenue from the nuclear power plant that is located in the district. We have experienced a reduction of 1.5 million dollars due to the re-calculation of the apportionment of nuclear fuel. We currently have a lawsuit filed with the Department of Taxation challenging the ruling of this apportionment to recoup this money lost.

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

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

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. The District ended the year with a 6.5 million dollar carry over balance which will provide time to look at future cost cutting options as well as the possibility of new operating levies.

The District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

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 W. St. Rt. 163, Oak Harbor, Ohio 43449-1278.

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 7,832,233
Receivables:	
Taxes	7,700,749
Accounts	3,713
Intergovernmental	47,104
Accrued interest	80,545
Prepayments	13,886
Materials and supplies inventory.	50,220
Capital assets:	
Land	372,525
Depreciable capital assets, net.	11,358,182
Total capital assets, net	11,730,707
Total assets.	27,459,157
Liabilities:	
Accounts payable.	8,190
Accrued wages and benefits	1,492,089
Pension obligation payable.	458,470
Intergovernmental payable	24,639
Deferred revenue	6,677,516
Long-term liabilities:	
Due within one year.	312,138
Due in more than one year	1,477,764
Total liabilities	10,450,806
Net Assets:	
Invested in capital assets, net of related debt.	11,539,344
Restricted for:	
Capital projects	1,994,457
State funded programs	56,964
Federally funded programs	24,556
Student activities	56,495
Other purposes	621,538
Unrestricted.	2,714,997
Total net assets	\$ 17,008,351

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, 2006

	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,581,040	\$ 554,114	\$ 68,887	\$ (7,958,039)
Special	1,378,425		159,284	(1,219,141)
Vocational	59,211			(59,211)
Other	210,292			(210,292)
Support services:				
Pupil	1,217,843		352,409	(865,434)
Instructional staff	893,844		28,922	(864,922)
Board of education	138,444			(138,444)
Administration	1,410,886		103,856	(1,307,030)
Fiscal	438,222			(438,222)
Operations and maintenance	2,240,256			(2,240,256)
Pupil transportation	1,088,464			(1,088,464)
Central	363,615		42,567	(321,048)
Operation of non-instructional services:				
Food service operations	717,099	545,653	220,564	49,118
Other non-instructional services	344,676	160,135	75,532	(109,009)
Extracurricular activities	613,138	166,402		(446,736)
Interest and fiscal charges	7,443			(7,443)
Total governmental activities	<u>\$ 19,702,898</u>	<u>\$ 1,426,304</u>	<u>\$ 1,052,021</u>	<u>(17,224,573)</u>
General Revenues:				
Property taxes levied for:				
General purposes				7,817,204
Capital projects				318,402
Grants and entitlements not restricted to specific programs				8,914,418
Investment earnings				335,414
Miscellaneous				19,165
Total general revenues				<u>17,404,603</u>
Change in net assets				180,030
Net assets at beginning of year (restated)				<u>16,828,321</u>
Net assets at end of year				<u>\$ 17,008,351</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,766,932	\$ 1,922,020	\$ 559,345	\$ 7,248,297
Receivables:				
Taxes	7,444,600	256,149		7,700,749
Accounts	1,125		2,588	3,713
Intergovernmental	11,812	430	34,862	47,104
Accrued interest	80,545			80,545
Interfund loan	150,000			150,000
Prepayments	13,886			13,886
Materials and supplies inventory	26,750		23,470	50,220
Restricted assets:				
Equity in pooled cash and cash equivalents	583,936			583,936
Total assets	\$ 13,079,586	\$ 2,178,599	\$ 620,265	\$ 15,878,450
Liabilities:				
Accounts payable	\$ 5,292		\$ 2,898	\$ 8,190
Accrued wages and benefits.	1,453,999		38,090	1,492,089
Pension obligation payable	422,488		35,982	458,470
Intergovernmental payable.	23,651		988	24,639
Retirement incentive payable	45,000			45,000
Interfund loan payable			150,000	150,000
Deferred revenue.	6,898,287	233,944		7,132,231
Total liabilities.	8,848,717	233,944	227,958	9,310,619
Fund Balances:				
Reserved for encumbrances	403,606	185,390	112,112	701,108
Reserved for materials and supplies inventory	26,750		23,470	50,220
Reserved for property tax unavailable for appropriation	603,874	22,205		626,079
Reserved for prepayments	13,886			13,886
Reserved for school bus purchases	9,267			9,267
Reserved for budget stabilization	95,107			95,107
Reserved for instructional materials.	479,562			479,562
Unreserved, undesignated, reported in:				
General fund	2,598,817			2,598,817
Special revenue funds			254,122	254,122
Capital projects funds		1,737,060	2,603	1,739,663
Total fund balances	4,230,869	1,944,655	392,307	6,567,831
Total liabilities and fund balances.	\$ 13,079,586	\$ 2,178,599	\$ 620,265	\$ 15,878,450

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, 2006

Total governmental fund balances \$ 6,567,831

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 11,730,707

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Taxes	\$	397,154
Accrued interest		<u>57,561</u>

Total 454,715

Long-term liabilities, including notes payable, are not due and
payable in the current period and therefore are not reported
in the funds.

Compensated absences		1,553,539
Note payable		<u>191,363</u>

Total (1,744,902)

Net assets of governmental activities \$ 17,008,351

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, 2006**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,937,861	\$ 322,783		\$ 8,260,644
Tuition	406,742			406,742
Earnings on investments	280,518	24,230	\$ 165	304,913
Charges for services			697,279	697,279
Extracurricular	10,401		194,751	205,152
Classroom materials and fees	265		85,741	86,006
Other local revenues	13,760		36,530	50,290
Intergovernmental - State	8,621,490	283,785	121,494	9,026,769
Intergovernmental - Federal	9,143		930,527	939,670
Total revenue	17,280,180	630,798	2,066,487	19,977,465
Expenditures:				
Current:				
Instruction:				
Regular	8,019,282	3,010	237,470	8,259,762
Special	1,191,207		180,923	1,372,130
Vocational	59,211			59,211
Other	210,292			210,292
Support Services:				
Pupil	852,888		354,313	1,207,201
Instructional staff	858,802		29,075	887,877
Board of education	138,444			138,444
Administration	1,249,381		118,855	1,368,236
Fiscal	425,835	5,663		431,498
Operations and maintenance	2,201,056	68,882		2,269,938
Pupil transportation	1,002,956	114,111		1,117,067
Central	157,541	109,904	84,541	351,986
Operation of non-instructional services:				
Food service operations			693,502	693,502
Other non-instructional services	10,228		213,716	223,944
Extracurricular activities	369,519		153,731	523,250
Facilities acquisition and construction	120	52,420	63,548	116,088
Debt service:				
Principal retirement		100,000		100,000
Interest and fiscal charges		7,443		7,443
Total expenditures	16,746,762	461,433	2,129,674	19,337,869
Excess (deficiency) of revenues				
over (under) expenditures	533,418	169,365	(63,187)	639,596
Other financing sources (uses):				
Transfers in			60,000	60,000
Transfers (out)	(60,000)			(60,000)
Total other financing sources (uses)	(60,000)		60,000	
Net change in fund balances	473,418	169,365	(3,187)	639,596
Fund balances at beginning of year (restated)	3,757,451	1,775,290	395,494	5,928,235
Fund balances at end of year	\$ 4,230,869	\$ 1,944,655	\$ 392,307	\$ 6,567,831

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, 2006

Net change in fund balances - total governmental funds \$ 639,596

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

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

Capital asset additions	\$	261,204	
Current year depreciation		<u>(561,988)</u>	
Total			(300,784)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

Capital asset disposals		(96,247)	
Accumulated depreciation		<u>83,989</u>	
Total			(12,258)

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

Taxes		(125,038)	
Accrued interest		<u>30,501</u>	
Total			(94,537)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.			100,000
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Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			<u>(151,987)</u>
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Change in net assets of governmental activities \$ 180,030

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 7,399,580	\$ 7,549,249	\$ 7,895,640	\$ 346,391
Tuition	392,070	400,000	406,742	6,742
Earnings on investments	278,440	283,829	282,459	(1,370)
Extracurricular			10,401	10,401
Classroom materials and fees			265	265
Other local revenues	12,336	12,586	13,635	1,049
Intergovernmental - State	8,354,930	8,523,922	8,610,733	86,811
Intergovernmental - Federal	140	143	9,143	9,000
Total revenue	16,437,496	16,769,729	17,229,018	459,289
Expenditures:				
Current:				
Instruction:				
Regular	8,048,553	8,248,320	8,213,221	35,099
Special	1,400,448	1,400,407	1,216,994	183,413
Vocational	75,123	75,121	55,720	19,401
Other	222,429	222,423	221,292	1,131
Support Services:				
Pupil	849,346	849,321	834,996	14,325
Instructional staff	923,145	923,118	869,819	53,299
Board of education	146,826	146,822	161,369	(14,547)
Administration	1,343,977	1,343,938	1,290,333	53,605
Fiscal	415,300	415,288	428,053	(12,765)
Operations and maintenance	2,249,139	2,249,074	2,478,893	(229,819)
Pupil transportation	1,053,346	1,053,315	1,006,248	47,067
Central	160,033	160,028	160,307	(279)
Operation of non-instructional services	12,066	12,066	10,594	1,472
Extracurricular activities	377,496	377,485	369,913	7,572
Facilities acquisition and construction	120	120	120	
Total expenditures	17,277,347	17,476,846	17,317,872	158,974
Excess (deficiency) of revenues over (under) expenditures	(839,851)	(707,117)	(88,854)	618,263
Other financing sources (uses):				
Refund of prior year expenditures			324	324
Refund of prior year receipts		(500)		500
Transfers (out)	(60,000)	(60,000)	(60,000)	
Advances (out)	(150,000)	(150,000)	(150,000)	
Total other financing sources (uses)	(210,000)	(210,500)	(209,676)	824
Net change in fund balance	(1,049,851)	(917,617)	(298,530)	619,087
Fund balance at beginning of year	5,042,330	5,042,330	5,042,330	
Prior year encumbrances appropriated	204,983	204,983	204,983	
Fund balance at end of year	\$ 4,197,462	\$ 4,329,696	\$ 4,948,783	\$ 619,087

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

		Agency
Assets:		
Equity in pooled cash and cash equivalents	\$	93,198
Accounts receivable		16
Total assets	\$	93,214
Liabilities:		
Accounts payable	\$	15
Due to students		93,199
Total liabilities	\$	93,214

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 6 instructional buildings, 1 administrative building and a bus garage. The District employs 109 non-certified and 140 certified (including administrative) full-time and part-time employees to provide services to approximately 1,984 students in grades K through 12 and various community groups, which ranks it 281st out of approximately 614 public school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 \$39,884 to NOECA for services in fiscal year 2006. Financial information is available from Betty Schweifert, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments (BACG)

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

Northwestern Ohio Educational Research Council, Incorporated

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

D. Basis of Accounting

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

E. Budgets

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 2006, investments were limited to federal agency securities, nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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

Under existing Ohio statutes all investment earning 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 2006 amounted to \$280,518, which includes \$68,762 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 Districts's investment account at year-end is provided in Note 4.

G. Inventory

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal 2006, the District maintained its capitalization threshold at \$10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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."

J. Compensated Absences

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For the fiscal year ended June 30, 2006, the District has presented its basic financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the District has converted its governmental funds to the modified accrual basis of accounting. This conversion required certain adjustments be recorded at June 30, 2005, cash fund balances as previously reported to reflect the prior years effect of adopting these new accounting principles. The restatement to the opening balances is as follows:

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

	Cash Fund Balance at June 30, 2005	Adjustments	Restated Fund Balance at July 1, 2005
Governmental Funds:			
General	\$ 5,247,313	\$ (1,489,862)	\$ 3,757,451
Permanent Improvement	1,760,694	14,596	1,775,290
Other Governmental Funds	<u>423,115</u>	<u>(27,621)</u>	<u>395,494</u>
Total governmental funds	<u>7,431,122</u>	<u>(1,502,887)</u>	<u>5,928,235</u>
 Fiduciary Funds:			
Agency	<u>72,217</u>	<u>(149)</u>	<u>72,068</u>
Total fiduciary funds	<u>72,217</u>	<u>(149)</u>	<u>72,068</u>
 Grand Total	<u>\$ 7,503,339</u>	<u>\$ (1,503,036)</u>	<u>\$ 6,000,303</u>

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

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, 2005, caused by the conversion to the accrual basis of accounting.

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

	<u>Total</u>
Adjusted fund balance, June 30, 2005	\$ 5,928,235
 GASB 34 adjustments:	
Long-term, (deferred) assets	549,252
Capital Assets	12,043,749
Long-term liabilities	<u>(1,692,915)</u>
Governmental activities net assets, June 30, 2005	<u>\$ 16,828,321</u>

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Uniform School Supplies	\$ 16,610
Community Education	2,807
Entry Year Program	6
Ohio Reads	11
Title VI-B	3,179

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 result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$5,637,039. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$5,549,350 of the District's bank balance of \$5,815,868 was exposed to custodial risk as discussed below, while \$266,518 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. Deposits of \$1,649,350 were collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds. Deposits of \$3,900,000 were collateralized by specific pledged collateral held at the Federal Reserve Bank in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The District has no deposit policy for custodial credit risk beyond the requirements of State statute.

C. Investments

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

Investment type	Fair Value	Investment Maturities	
		6 months or less	7 to 12 months
STAR Ohio	\$ 1,290,585	\$ 1,290,585	\$ -
FHLB	993,657	-	993,657
	<u>\$ 2,284,242</u>	<u>\$ 1,290,585</u>	<u>\$ 993,657</u>

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

The weighted average maturity of investments is .28 years.

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less and that an investment must be purchased with the expectation that it will be held to maturity. Interim certificates of deposit must mature within one year and inactive certificates of deposit must mature no later than the expiration of the depository agreement.

Credit Risk: The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not address investment credit risk beyond the requirements of state statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has \$493,657 of investments exposed to custodial credit risk. The Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipts of confirmation of transfer from the custodian by the Treasurer, governing board or qualified trustee.

Concentration of Credit Risk: The District places no dollar limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,290,585	56.50%
FHLB	993,657	43.50%
	<u>\$ 2,284,242</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 5,637,039
Investments	2,284,242
Cash on hand	<u>4,150</u>
Total	<u>\$ 7,925,431</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 7,832,233
Agency funds	<u>93,198</u>
Total	<u>\$ 7,925,431</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Loans

Interfund balances at June 30, 2006, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$150,000

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006, are reported on the Statement of Net Assets.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	<u>Amount</u>
Nonmajor Governmental Funds	<u>\$ 60,000</u>

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

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

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

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.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out – the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

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

NOTE 6 - PROPERTY TAXES – (Continued)

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, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$603,874 in the general fund, and \$22,205 in the Permanent Improvement capital projects fund. The amount available for advance at June 30, 2005 was \$561,653 in the general fund, and \$20,589 in the Permanent Improvement capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

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

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

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 227,942,810	71.74	\$ 231,354,580	65.30
Public utility personal property	82,746,700	26.04	117,696,780	33.22
Tangible personal property	<u>7,049,059</u>	<u>2.22</u>	<u>5,257,860</u>	<u>1.48</u>
Total	<u>\$ 317,738,569</u>	<u>100.00</u>	<u>\$ 354,309,220</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$	36.13	\$	35.83
Permanent improvement		1.20		1.50

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, 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:

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

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

NOTE 7 – RECEIVABLES – (Continued)

Governmental Activities	
Taxes	\$ 7,700,749
Accounts	3,713
Intergovernmental	47,104
Accrued interest	<u>80,545</u>
Total	<u>\$ 7,832,111</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 372,525	\$ -	\$ -	\$ 372,525
<i>Capital assets, being depreciated:</i>				
Land improvements	1,544,750			1,544,750
Building and improvements	19,186,571	63,548		19,250,119
Furniture and equipment	475,249	21,951	(22,103)	475,097
Vehicles	<u>1,808,472</u>	<u>175,705</u>	<u>(74,144)</u>	<u>1,910,033</u>
Total capital assets, being depreciated	<u>23,015,042</u>	<u>261,204</u>	<u>(96,247)</u>	<u>23,179,999</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,007,512)	(33,128)		(1,040,640)
Building and improvements	(8,910,493)	(386,345)		(9,296,838)
Furniture and equipment	(312,150)	(31,486)	13,095	(330,541)
Vehicles	<u>(1,113,663)</u>	<u>(111,029)</u>	<u>70,894</u>	<u>(1,153,798)</u>
Total accumulated depreciation	<u>(11,343,818)</u>	<u>(561,988)</u>	<u>83,989</u>	<u>(11,821,817)</u>
Governmental activities capital assets, net	<u>\$ 12,043,749</u>	<u>\$ (300,784)</u>	<u>\$ (12,258)</u>	<u>\$ 11,730,707</u>

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

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

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 297,090
<u>Support Services:</u>	
Administration	20,973
Fiscal	1,131
Operations and Maintenance	11,307
Pupil Transportation	101,071
Central	13,677
Operation of Non-Instructional Services	5,505
Extracurricular Activities	90,261
Food Service Operations	<u>20,973</u>
Total depreciation expense	<u>\$ 561,988</u>

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 1,521,756	\$375,780	\$ (343,997)	\$ 1,553,539	\$ 167,138
Retirement incentive	165,000	45,000	(165,000)	45,000	45,000
Energy conservation loan	<u>291,363</u>	<u>-</u>	<u>(100,000)</u>	<u>191,363</u>	<u>100,000</u>
Total long-term obligations	<u>\$ 1,978,119</u>	<u>\$420,780</u>	<u>\$ (608,997)</u>	<u>\$ 1,789,902</u>	<u>\$ 312,138</u>

Energy conservation loan – A \$500,000 energy conservation loan was issued on January 29, 2004, matures on January 29, 2009, and carries an interest rate of 3.2%. As of June 30, 2006, \$391,363 has been drawn down on the loan. Loan repayments consist of semi-annual payments of \$50,000 plus interest. The loan was issued in order to provide for energy improvements to District buildings. The loan is a general obligation of the District and is accounted for on the statement of net assets. The source of payment is derived through the energy savings attained as a result of the energy improvements.

Compensated absences will be paid out of the fund from which the employee is paid, which is primarily the General fund.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$30,733,673 and an unvoted debt margin of \$343,612.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. For fiscal year 2006, the District contracted with private carriers for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy. The private carrier also covers boiler and machinery with a \$1,000 deductible and a \$30,000,000 limit.

Professional liability is provided by Todd & Associates with a \$2,500 deductible and \$1,000,000 annual aggregate. The District is also protected by Todd & Associates with an umbrella liability coverage of \$10,000,000. Vehicles are covered by Todd & Associates with a \$1,000 deductible for comprehensive and for collision. Automobile liability has a \$1,000,000 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 2005.

B. OSBA Workers' Compensation Group Rating

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

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

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

NOTE 10 - RISK MANAGEMENT – (Continued)

C. Group Health Insurance

The District has joined together with other school districts in the area to form the San-Ott Schools Employee Welfare Benefit Association (the "Association"), whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of \$200,000 and aggregate claims in excess of 120 percent of expected claims.

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004, were \$297,655, \$293,339, \$253,582; 46.77 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$158,437 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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

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

NOTE 11 - PENSION PLANS – (Continued)

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 employer contributions.

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

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

NOTE 11 - PENSION PLANS – (Continued)

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,134,733, \$1,104,365 and \$1,115,367; 83.51 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$187,148 represents the unpaid contributions for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$8,603 made by the District and \$13,538 made by the plan members.

C. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$87,287 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

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

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$137,512 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Retirement Incentive

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

The retirees will receive the \$10,000 in January of the calendar year following the year of retirement. A liability of \$45,000 for the retirement incentive has been recorded as a component of long-term liabilities on the statement of net assets. The obligation will ultimately be paid from the fund in which the employee was paid.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

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

Net Change in Fund Balance

Budget basis	\$ (298,530)
Net adjustment for revenue accruals	51,162
Net adjustment for expenditure accruals	162,682
Net adjustment for other sources/uses	149,676
Adjustment for encumbrances	<u>408,428</u>
GAAP basis	<u>\$ 473,418</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

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

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

NOTE 15 – CONTINGENCIES – (Continued)

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$4,034 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is also party to other 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.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ 415,265	\$ 8,664	\$ 95,107
Current year set-aside requirement	277,270	277,270	
Current year offsets	(71,680)	(249,487)	
Qualifying disbursements	<u>(141,293)</u>	<u>(36,447)</u>	<u>-</u>
Total	<u>\$ 479,562</u>	<u>\$ -</u>	<u>\$ 95,107</u>
Balance carried forward to FY 2007	<u>\$ 479,562</u>	<u>\$ -</u>	<u>\$ 95,107</u>

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

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

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

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

NOTE 16 - STATUTORY RESERVES – (Continued)

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for budget stabilization	\$ 95,107
Amount restricted for instructional materials	479,562
Amount restricted for school bus purchases	<u>9,267</u>
Total restricted assets	<u>\$ 583,936</u>

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

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

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>		
School Breakfast Program	048926-05PU-2005 048926-05PU-2006	10.553
Total School Breakfast Program		
National School Lunch Program	048926-LLP4-2005 048926-LLP4-2006 048926-VGS1-2003 048926-LLP1-2005 048926-LLP1-2006	10.555
Total National School Lunch		
Total Nutrition Cluster		
Food Distribution Program	N/A	10.550
Total United States Department of Agriculture		
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Special Education Cluster:		
Special Education Grants to States (IDEA Part B)	048926-6BSF-05 048926-6BPB-05 048926-6BSF-06	84.027
Total Special Education Grants to States		
Passed Through Erie-Huron-Ottawa Educational Service Center:		
Pre-School Grant	125690-PGS1-05 125690-PGS1-06	84.173
Total Pre-School Grant		
Total Special Education Cluster		

<u>Federal Receipts</u>	<u>Non-Cash Receipts</u>	<u>Federal Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 7,318		\$ 7,318	
25,257		25,257	
<u>32,575</u>		<u>32,575</u>	
47,475		47,475	
128,077		128,077	
1,155		1,155	
75		75	
806		806	
<u>177,588</u>		<u>177,588</u>	
<u>210,163</u>		<u>210,163</u>	
	\$ 56,976		\$ 56,976
<u>210,163</u>	<u>\$ 56,976</u>	<u>210,163</u>	<u>\$ 56,976</u>
		441	
(237)		4,075	
<u>505,377</u>		<u>502,622</u>	
<u>505,140</u>		<u>507,138</u>	
1,486		1,486	
<u>18,227</u>		<u>18,227</u>	
<u>19,713</u>		<u>19,713</u>	
<u>\$ 524,853</u>		<u>\$ 526,851</u>	

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
Passed Through Ohio Department of Education:		
Migrant Education Basic State Grant Program	048926-MGS1-05 048926-MGS1-06	84.011
Total Migrant Education Cluster		
Grants to Local Educational Agencies (ESEA Title I)	048926-C1S1-05 048926-C1S1-06	84.010
Total Title I		
Innovative Educational Program Strategies		84.298
	048926-C2S1-05 048926-C2S1-06	
Total Innovative Educational Program Strategies		
Drug-Free Schools Grant	048926-DRS1-05 048926-DRS1-06	84.186
Total Drug-Free Schools Grant		
Improving Teacher Quality		84.367
	048926-TRS1-05 048926-TRS1-06	
Total Improving Teacher Quality		
Technology Literacy Challenge Grant		84.318
	048926-TJS1-05 048926-TJS1-06	
Total Technology Literacy Challenge Grant		
Total Department of Education		
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>		
State Health Insurance Program	N/A	93.767
Medical Assistance Program	N/A	93.778
Total Department of Health and Human Services		
Totals		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
\$ 3,344		\$ 3,751	
6,297		5,859	
9,641		9,610	
		24,645	
145,036		141,253	
145,036		165,898	
		166	
4,984		4,984	
4,984		5,150	
		3,848	
7,547		7,547	
7,547		11,395	
29,917		26,199	
49,831		34,523	
79,748		60,722	
		811	
2,639		2,446	
2,639		3,257	
774,448		782,883	
179		179	
8,964		8,964	
9,143		9,143	
\$ 993,754	\$ 56,976	\$ 1,002,189	\$ 56,976

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - 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.

NOTE E – CARRYOVER FUNDS

A negative receipt is shown in the Special Education Grants to State (IDEA Part B), CFDA No. 84.027. This negative receipt represents money on the final expenditure report that was unspent after the initial period of availability had ended. In accordance with carryover provisions permitted by the Ohio Department of Education these monies were carried over to the subsequent years' award amounts.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton-Carroll-Salem Local School District, Ottawa County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 16, 2007, wherein we noted the District implemented presenting their financial statements in accordance with generally accepted accounting principles (GAAP). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated July 16, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated July 16, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 16, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

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

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

In our opinion, the Benton-Carroll-Salem Local School District, Ottawa County, complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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



Mary Taylor, CPA
Auditor of State

July 16, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (CFDA # 87.027 and 87.173)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	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

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Revised Code § 117.38, failure to prepare its annual financial report in accordance with generally accepted accounting principles.	Yes	



Mary Taylor, CPA
Auditor of State

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
AUGUST 14, 2007**