



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1298

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Benton-Carroll-Salem Local School District (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

February 14, 2002

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

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2001**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,374,457	\$238,575	\$1,666,853
Cash and Cash Equivalents:			
With Fiscal Agents		1,534	
Receivables:			
Taxes	13,282,237		444,744
Accounts	1,865	21	
Accrued Interest	111,001		
Interfund Loan Receivable	70,040		
Due From Other Governments		18,471	
Materials and Supplies Inventory	74,683		
Prepaid Items	21,553		
Property, Plant and Equipment (Net of Accumulated Depreciation where Applicable)			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	134,345		
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	\$18,070,181	\$258,601	\$2,111,597

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$180,880	\$88,543			\$6,549,308
				1,534
				13,726,981
367				2,253
				111,001
				70,040
				18,471
21,891				96,574
				21,553
125,450		28,678,476		28,803,926
				134,345
			1,842,230	1,842,230
\$328,588	\$88,543	\$28,678,476	\$1,842,230	\$51,378,216

(Continued)

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

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2001
(Continued)**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$54,090	\$5,577	\$3,632
Accrued Wages and Benefits	1,285,214	19,748	
Compensated Absences Payable	39,453		
Retirement Incentive Payable			
Pension Obligation Payable	234,554	3,228	
Interfund Loan Payable		70,040	
Due to Other Governments	4,395	192	
Deferred Revenue	12,664,450		437,909
Due to Students			
Undistributed Monies			
Total Liabilities	14,282,156	98,785	441,541
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved for Encumbrances	191,424	108,945	211,504
Reserved for Supplies Inventory	74,683		
Reserved for Prepaid Items	21,553		
Reserved for Budget Stabilization	95,107		
Reserved for Textbooks	39,238		
Reserved for Property Taxes	665,266		15,335
Unreserved, Undesignated	2,700,754	50,871	1,443,217
Total Fund Equity and Other Credits	3,788,025	159,816	1,670,056
Total Liabilities, Fund Equity and Other Credits	\$18,070,181	\$258,601	\$2,111,597

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$1,580				\$64,879
10,909				1,315,871
62,529			\$1,545,514	1,647,496
			195,000	195,000
33,042			101,716	372,540
				70,040
39				4,626
13,627				13,115,986
	\$87,366			87,366
	1,177			1,177
121,726	88,543		1,842,230	16,874,981
		\$28,678,476		28,678,476
115,842				115,842
91,020				91,020
				511,873
				74,683
				21,553
				95,107
				39,238
				680,601
				4,194,842
206,862		28,678,476		34,503,235
\$328,588	\$88,543	\$28,678,476	\$1,842,230	\$51,378,216

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

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended June 30, 2001**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Property and Other Local Taxes	\$13,446,832	
Tuition	212,174	
Earnings on Investments	509,514	199
Other Local Revenues	79,105	257,489
Intergovernmental - State	2,033,393	144,334
Intergovernmental - Federal	18,880	258,984
Total Revenues	16,299,898	661,006
Expenditures:		
Instruction:		
Regular	7,775,218	129,245
Special	1,298,195	154,804
Vocational	534,179	
Other	40,708	
Support services:		
Pupils	857,569	19,244
Instructional Staff	767,286	104,603
Board of Education	86,968	
Administration	1,301,740	28,136
Fiscal	425,392	
Operation and Maintenance of Plant	1,827,715	
Pupil Transportation	765,679	
Central	66,525	2,530
Community Services		47,159
Extracurricular Activities	335,477	174,602
Facilities Services	240	
Total Expenditures	16,082,891	660,323
Excess of Revenues Over (Under) Expenditures	217,007	683
Other Financing Sources and Uses		
Operating Transfers In		17,300
Proceeds from Sale of Fixed Assets	875	
Operating Transfers Out	(29,800)	(4,618)
Total Other Financing Sources (Uses)	(28,925)	12,682
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	188,082	13,365
Fund Balance at Beginning of Year	3,595,621	146,451
Increase in reserve for inventory	4,322	
Fund Balance at End of Year	\$3,788,025	\$159,816

The notes to the general-purpose financial statements are an integral part of this statement.

Capital Projects	Totals (Memorandum Only)
\$467,460	\$13,914,292
	212,174
25,283	534,996
	336,594
12,395	2,190,122
	277,864
<u>505,138</u>	<u>17,466,042</u>
	6,849
	7,911,312
	1,452,999
	534,179
	40,708
	876,813
	871,889
	86,968
	1,329,876
7,280	432,672
	1,827,715
8,528	774,207
	69,055
	47,159
	510,079
80,973	81,213
<u>103,630</u>	<u>16,846,844</u>
<u>401,508</u>	<u>619,198</u>
	17,300
	875
	(34,418)
	<u>(16,243)</u>
401,508	602,955
1,268,548	5,010,620
	4,322
<u>\$1,670,056</u>	<u>\$5,617,897</u>

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

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Year Ended June 30, 2001**

	General		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Property and Other Local Taxes	\$12,655,000	\$13,173,273	\$518,273
Tuition	171,691	212,174	40,483
Interest	343,381	446,906	103,525
Other Local Revenues	21,465	35,934	14,469
Intergovernmental - State	1,593,273	2,089,285	496,012
Intergovernmental - Federal	16,324	18,880	2,556
Total Revenues	14,801,134	15,976,452	1,175,318
Expenditures:			
Current:			
Instruction:			
Regular	\$8,062,042	7,894,025	168,017
Special	1,384,695	1,308,074	76,621
Vocational	552,556	543,860	8,696
Other	63,883	43,638	20,245
Support services:			
Pupils	874,155	864,995	9,160
Instructional Staff	849,719	773,049	76,670
Board of Education	93,881	87,084	6,797
Administration	1,300,725	1,286,029	14,696
Fiscal	482,498	425,123	57,375
Operation and Maintenance of Plant	1,957,127	1,921,779	35,348
Pupil Transportation	842,715	817,465	25,250
Central	74,144	65,475	8,669
Community Services			
Extracurricular activities	341,300	334,858	6,442
Facilities Services	71,770	120	71,650
Total Expenditures	16,951,210	16,365,574	585,636
Excess of Revenues Over (Under) Expenditures	(2,150,076)	(389,122)	1,760,954
Other Financing Sources and Uses			
Refund of Prior Year Expenditures		4,145	4,145
Refund of Prior Year Receipts	(500)	(97)	403
Operating Transfers In			
Operating Transfers Out	(52,000)	(29,800)	22,200
Advances In		46,851	46,851
Advances Out		(70,040)	(70,040)
Proceeds of Sale of Fixed Assets		875	875
Total Other Financing Sources (Uses)	(52,500)	(48,066)	4,434
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,202,576)	(437,188)	1,765,388
Fund Balances at Beginning of Year	3,926,856	3,926,856	
Prior Year Encumbrances Appropriated	742,740	742,740	
Fund Balance at End of Year	\$2,467,020	\$4,232,408	\$1,765,388

Special Revenue			Capital Projects		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
			\$485,000	\$462,789	(\$22,211)
\$94	\$199	\$105	196,550	25,284	(171,266)
193,225	252,693	59,468	203,450	22,261	(181,189)
201,618	133,587	(68,031)			
290,598	244,577	(46,021)			
685,535	631,056	(54,479)	885,000	510,334	(374,666)
180,977	155,572	25,405	\$26,434	6,849	19,585
177,771	165,704	12,067			
18,480	18,258	222			
16,850	16,728	122			
104,456	92,733	11,723			
43,612	38,396	5,216			
			10,250	7,280	2,970
			7,500		7,500
			100,000	96,374	3,626
12,895	2,530	10,365			
67,666	62,369	5,297			
254,537	205,899	48,638			
			313,770	205,640	108,130
877,244	758,189	119,055	457,954	316,143	141,811
(191,709)	(127,133)	64,576	427,046	194,191	(232,855)
6,787	6,787				
(61)	(61)				
17,300	17,300				
(4,924)	(4,618)	306			
	70,040	70,040			
	(46,026)	(46,026)			
19,102	43,422	24,320			
(172,607)	(83,711)	88,896	427,046	194,191	(232,855)
171,219	171,219		1,209,191	1,209,191	
36,353	36,353		48,335	48,335	
\$34,965	\$123,861	\$88,896	\$1,684,572	\$1,451,717	(\$232,855)

(Continued)

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

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Year Ended June 30, 2001
(Continued)**

	Totals (Memorandum Only)		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$13,140,000	\$13,636,062	\$496,062
Interest	171,691	212,174	40,483
Tuition and Fees	540,025	472,389	(67,636)
Rent	214,690	288,627	73,937
Property and Other Local Taxes	1,998,341	2,245,133	246,792
Miscellaneous	306,922	263,457	(43,465)
Total Revenues	16,371,669	17,117,842	746,173
Expenditures:			
Current:			
Instruction:			
Regular	8,269,453	8,056,446	213,007
Special	1,562,466	1,473,778	88,688
Vocational	571,036	562,118	8,918
Other	63,883	43,638	20,245
Support services:			
Pupils	891,005	881,723	9,282
Instructional Staff	954,175	865,782	88,393
Board of Education	93,881	87,084	6,797
Administration	1,344,337	1,324,425	19,912
Fiscal	492,748	432,403	60,345
Operation and Maintenance of Plant	1,964,627	1,921,779	42,848
Pupil Transportation	942,715	913,839	28,876
Central	87,039	68,005	19,034
Non-Instructional Services	67,666	62,369	5,297
Extracurricular activities	595,837	540,757	55,080
Interest	385,540	205,760	179,780
Total Expenditures	18,286,408	17,439,906	846,502
Excess of Revenues Over (Under) Expenditures	(1,914,739)	(322,064)	1,592,675
Other Financing Sources and Uses			
Operating Transfers In	6,787	10,932	4,145
Proceeds from Sale of Notes	(561)	(158)	403
Proceeds from Sale of Long-Term Notes	17,300	17,300	
Refund of Prior Year Expenditures	(56,924)	(34,418)	22,506
Operating Transfers Out		116,891	116,891
Refund of Prior Year Receipts		(116,066)	(116,066)
Advances Out		875	875
Total Other Financing Sources (Uses)	(33,398)	(4,644)	28,754
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,948,137)	(326,708)	1,621,429
Fund Balances at Beginning of Year	5,307,266	5,307,266	
Prior Year Encumbrances Appropriated	827,428	827,428	
Fund Balance at End of Year	\$4,186,557	\$5,807,986	\$1,621,429

The notes to the general-purpose financial statements are an integral part of this statement.

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

**Combined Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended June 30, 2001**

	Proprietary Fund Types
	Enterprise
Operating Revenues:	
Tuition and Fees	\$105,629
Sales	666,982
Other Operating Revenues	466
Total Operating Revenues	773,077
Operating Expenses	
Personal Services	429,698
Contract Services	61,830
Materials and Supplies	418,485
Depreciation	13,258
Total Operating Expenses	923,271
Operating Loss	(150,194)
Non-Operating Revenues and Expenses	
Operating Grants	171,827
Federal Donated Commodities	48,424
Interest Revenue	280
(Loss) on Sale of Assets	(100)
Total Non-Operating Revenues and Expenses	220,431
Income Before Operating Transfers	70,237
Operating Transfers-In	17,118
Net Income	87,355
Retained Earnings at Beginning of Year	3,665
Retained Earnings at End of Year	91,020
Contributed Capital at End of Year	115,842
Total Fund Equity at End of Year	\$206,862

The notes to the general-purpose financial statements are an integral part of this statement.

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

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended June 30, 2001**

	Enterprise
Increase (Decrease) in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Sales	\$667,675
Cash Received from Tuition and Fees	105,266
Cash Payments for Personal Services	(442,533)
Cash Payments for Contract Services	(64,207)
Cash Payments for Supplies and Materials	(369,960)
Cash Payments for Other Expenses	(223)
Net Cash Used by Operating Activities	(103,982)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Cash received from Operating Grants	187,574
Cash received for Operating Transfers	17,118
Cash Used for Repayment of Interfund Loans	(825)
Net Cash Provided by Noncapital Financing Activities	203,867
<u>Cash Flows from Investing Activities:</u>	
Interest Received	280
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(35,454)
Net Increase (Decrease) in Cash and Cash Equivalents	64,711
Cash and Cash Equivalents at Beginning of Year	116,169
Cash and Cash Equivalents at End of Year	\$180,880
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	(\$150,194)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:</u>	
Depreciation	13,258
Donated Commodities Used During the Year	48,424
Changes in Assets and Liabilities:	
Decrease in Supplies Inventory	1,938
Decrease in Accounts Receivable	137
Decrease in Prepayments	1,921
Decrease in Accounts Payable	(2,327)
Decrease in Accrued Wages and Benefits	(3,433)
Decrease in Compensated Absences Payable	1,569
Increase in Due to Other Governments	39
Decrease in Pension Obligations Payable	(14,130)
Decrease in Deferred Revenue	(1,184)
Total Adjustments	46,212
Net Cash Used by Operating Activities	(\$103,982)

The notes to the general-purpose financial statements are an integral part of this statement.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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 the Villages 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 six instructional buildings, one administrative building and a bus garage. The District employs 99 non-certified and 152 certified (including administrative) full-time and part-time employees to provide services to approximately 2,115 students in grades K through 12 and various community groups, which ranks it 263rd out of approximately 682 public and community school districts in Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. The Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing 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 access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

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 an annual fee per student charged to participating districts. The District paid \$26,471 to NOECA for services in fiscal year 2001. Financial information is available from the Erie County Educational Service Center (fiscal agent), at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) consists of twenty-six school districts representing seven counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca, and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through BACG are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the Council. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors consists of one elected representative from each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal officer). Members of the Board serve staggered two-year terms. Financial information is available from the Erie County Educational Service Center (fiscal agent), at 2900 S. 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 11.

C. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do

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not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds - capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

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, where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

Enterprise Funds - enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust and Agency Funds - these funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - this group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - this group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

D. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental fund types and agency funds.

Revenues 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

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

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Current property taxes measurable as of June 30, 2001, but which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in government funds.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. 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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2001 is as follows:

1. Prior to January 15 of the preceding year, 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.

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The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the Board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. 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 statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid. The Eisenhower and Pre-School for the Handicapped special revenue funds are flow through-grants for which the Erie County Educational Service Center is the primary recipient. Budgetary information for these funds is not included within the District's reporting entity, for which the "appropriated budget" is adopted, and the District does not maintain separate budgetary records.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations which either reallocated or increased (decreased) the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2001.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus

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encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reservation of fund balance on a GAAP basis (Exhibit 1) and as the equivalent of expenditures on a non-GAAP budgetary basis (Exhibit 3) in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary basis and GAAP basis of accounting. Encumbrances for enterprise funds are reported in Note 12 to the financial statements.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, commercial paper, and U.S. Federal Agency Securities.

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 and repurchase agreements are reported at cost.

Calculation of the Net Increase in the Fair Value of Investments - Aggregate Method

	<u>General Fund</u>
Fair Value at June 30, 2001	\$470,877
Add: Proceeds of investments sold and matured in fiscal 2001	3,500,000
Less: Purchase of investments in fiscal 2001	(468,911)
Less: Fair value at June 30, 2001	<u>(3,466,515)</u>
Change in fair value of investments	<u>\$35,451</u>

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, 2001.

Under existing Ohio statutes, 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 2001 totaled \$509,514, which included \$132,264 assigned from other funds of the District.

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

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F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventory at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicated they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Prepays

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. 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 capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Asset Account Group.

2. Proprietary and Nonexpendable Trust Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, Fixtures and Minor Equipment	5 - 20

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I. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for proprietary fund operations (excluding commodities) are recognized as revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief
School Bus Purchase

Capital Projects Fund

State Property Tax Relief

Non-Reimbursement Grants

Special Revenue Funds

Teacher Development
Educational Management Information Systems
Eisenhower Grant
Title VI-B
Title I
Title VI
SchoolNet Professional Development
Pre-School for the Handicapped

Capital Projects Fund

School Net Plus

Reimbursable Grants

General Fund

Driver Education
Vocational Education
CAFS - Medicaid Reimbursement

Special Revenue Funds

Vocational Education - Occupational Work Adjustment
Library Automation
Data Communications
Telecommunications (E-Rate)

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Drug-Free Schools
Auxiliary Service
School Age Child Care Program
Special Education Transition
Ohio Reads
Early Childhood Education

Proprietary Funds

National School Lunch Program
National School Milk Program
Donated Federal Commodities

Grants and entitlements amounted to more than 14% of the District's operating revenue during the 2001 fiscal year.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. The District records a liability for accumulated, unused vacation (as earned) for all employees with more than one year of service. A liability for severance is accrued using the termination method; i.e., the liability for earned sick leave accumulated at the balance sheet date is recorded to the extent it is probable that benefits will result in termination payments. The probability is based upon the District's past experience in making termination payments. For purposes of establishing a liability for severance payments, all employees with at least ten (10) years of service with the District were considered as being eligible to possibly receive future termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

K. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However,

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compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the General Long-Term Obligations Account Group until due. Long-term debt and other obligations financed by Proprietary funds are reported as liabilities in the appropriate Proprietary funds.

A. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, tax revenue unavailable for appropriation, prepayments, textbooks and budget stabilization. The reserve for property taxes represents taxes recognized as revenue in accordance with GAAP, but not available for appropriation in accordance with Ohio statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Contributed Capital

Contributed capital reported in the enterprise funds represents resources provided from other funds, other governments, or private sources that is not subject to repayment. These assets are recorded at fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

Prior to 1992, the District prepared its financial statements on a cash basis; consequently, contributed capital (if any) prior to 1992 has not been included in the proprietary funds' total equity.

N. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant may include:

- Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
- Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
- Short-term interfund loans made pursuant to Board of Education resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.

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- Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
- Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
- Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2001 is presented in Note 5.

O. Statutory Reserves

The District is required by State law to set aside certain (cash basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	Textbooks	Capital Acquisition	Budget Stabilization	Total
Set-aside Cash Balance as of June 30, 2000	(\$115,768)		\$691,420	
Current Year Set-aside Requirement	398,215	\$398,215		
Reduction of Budget Stabilization Set-aside in accordance with S.B. 345			(596,313)	
Current Year Offsets		(462,789)		
Qualifying Disbursements	(243,209)	(392,169)		
Reserve Balance Carried Forward as of June 30, 2001	<u>\$39,238</u>	<u> </u>	<u>\$95,107</u>	
Total Restricted Assets	<u>\$39,238</u>	<u> </u>	<u>\$95,107</u>	<u>\$134,345</u>

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside requirement below zero, the amount for capital acquisitions may not be used to reduce the set-aside requirements of future years.

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. S.B. 345 places special restrictions of the use of Bureau of Workers Compensation (BWC) rebate money remaining in the budget stabilization as of April 10, 2001, which is \$95,107 at June 30, 2001. Other non-BWC monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the General Fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

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P. Statement of Cash Flows

In September 1989, the GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented a statement of cash flows for its enterprise funds. For purposes of the statement of cash flows, the District considers cash equivalents to include investments of the cash management pool and all short term investments (maturity of 90 days or less from date of purchase).

Q. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This Statement is effective for financial statements beginning after December 15, 1993. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

R. Parochial Schools

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

S. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for specific purchases. See Note 2, O for the calculation of the year-end restricted asset balances and the corresponding fund balance reserves.

T. Estimates

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

U. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

For fiscal year 2001, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. For the District, the implementation of these statements had no effect on fund balances/retained earnings as previously reported for the fiscal year ended June 30, 2000.

B. Deficit Fund Balances

Fund balances at June 30, 2001 included the following individual fund deficits:

	<u>Deficit Retained Earnings/ Fund Balance</u>
Special Revenue Funds:	
Title VI-B Fund	(\$20,839)
Title 1 - Migrant Fund	(258)
Title 1 Fund	(1,987)
Enterprise Funds:	
Community Education Fund	(6,274)

These GAAP-basis deficits are the result of the application of generally accepted accounting principles. The General Fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

4. EQUITY IN POOLED CASH 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 the Board of Education has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation

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of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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) 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Cash on Hand: At year end, the District had \$250 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

Cash with Fiscal Agent: At year end, \$1,534 was on deposit with the District's fiscal agent for pass-through grants, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents."

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

Deposits: At year end, the carrying amount of the District's deposits was \$4,422,294 and the bank balance was \$4,744,537. Of the bank balance:

1. \$403,752 was covered by federal depository insurance.
2. \$2,939,251 was covered by collateral held by the pledging banks' trust department in the name of the District.
3. \$1,400,000 was covered by Surety Company Bonds.
4. \$1,534 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category of Risk 3	Fair Value
U.S. Federal Agency Securities	\$470,877	\$470,877
Not Subject to Categorization:		
Investment in State Treasurer's Investment Pool		1,791,766
	\$470,877	\$2,262,643

The federal agency securities have a maturity date of August, 2001.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$6,683,653	
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(1,791,766)	\$1,791,766
U.S. Federal Agency Securities	(470,877)	470,877
Cash with Fiscal Agent	1,534	
Cash on Hand	(250)	
GASB Statement No. 3	\$4,422,294	\$2,262,643

5. INTERFUND TRANSACTIONS

A. The following is a reconciliation of the District's operating transfers for fiscal year 2001:

	Transfer In	Transfers (Out)
General Fund		(\$29,800)
Special Revenue Funds:		
Vocational Education	\$17,000	
District Managed Student Activity	300	(\$4,618)
Enterprise Funds:		
Community Education Program	3,570	
Oak Harbor Swim Club	1,048	
Uniform School Supplies	12,500	
Total Operating Transfers	\$34,418	(\$34,418)

B. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	Interfund Loan Receivables	Interfund Loan Payable
General Fund	\$70,040	
Special Revenue Funds:		
Title VI-B		(\$54,205)
Class Size Reduction		(15,835)
Total Interfund Loans	\$70,040	(\$70,040)

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value, and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

The assessed values upon which the fiscal year 2001 taxes were collected are as follows:

	2000 Second-Half Collections		2001 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$176,504,670	35.08%	\$195,125,760	38.21%
Public Utility	267,204,780	53.12%	277,050,040	54.26%
Tangible Personal Property	59,382,154	11.80%	38,458,242	7.53%
Total Assessed Value	<u>\$503,091,604</u>	<u>100%</u>	<u>\$510,634,042</u>	<u>100%</u>

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

Operations	\$31.23	\$35.13
Permanent Improvements	1.20	1.20

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Ottawa County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2001, totaled \$665,266 in the General Fund and \$15,335 in the Permanent Improvements Fund.

7. RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (rent and student fees) and intergovernmental grants and entitlements (to the extent that such grants and entitlements relate to the current year). 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 grants.

A summary of the principal items of receivables follows:

	Amounts
General Fund:	
Taxes - Current and Delinquent	\$13,282,237
Accrued Interest	111,011
Accounts Receivable	1,865
Special Revenue Funds:	
Due to Other Governments	18,471
Accounts Receivable	21
Capital Projects Funds:	
Taxes - Current and Delinquent	444,744

8. FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	Balance July 1, 2000	Increases	Decreases	Balance June 30, 2001
Land/Improvements	\$2,110,044			\$2,110,044
Buildings/Improvements	20,084,462			20,084,462
Furniture/Equipment	4,890,370	\$64,031	(\$52,585)	4,901,816
Vehicles	1,523,264	58,890		1,582,154
Totals	\$28,608,140	\$122,921	(\$52,585)	\$28,678,476

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

A summary of the proprietary fixed assets at June 30, 2001 follows:

Furniture and Equipment	\$291,562
Less: Accumulated Depreciation	<u>(166,112)</u>
Totals	<u><u>\$125,450</u></u>

9. CONTRIBUTED CAPITAL

There were no changes to contributed capital in the enterprise funds for the year ended June 30, 2001.

	<u>Food Service</u>	<u>Vo-Ag Farm</u>	<u>Total</u>
Contributed Capital, June 30, 2001	<u>\$104,502</u>	<u>\$11,340</u>	<u>\$115,842</u>

10. LONG-TERM OBLIGATIONS

A. During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

	<u>Balance July 1, 2000</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/01</u>
Compensated Absences	\$1,498,704	\$46,810		\$1,545,514
Early Retirement Incentive	330,000		(135,000)	195,000
Pension Obligation Payable	102,940	101,716	(102,940)	101,716
Totals	<u>\$1,931,644</u>	<u>\$148,526</u>	<u>(\$237,940)</u>	<u>\$1,842,230</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school 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 for the District at June 30, 2001 are a voted debt margin of \$45,957,064 and an unvoted debt margin of \$510,634.

11. 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 2001, 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.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

Professional liability is provided by The Nationwide Insurance Company with a zero deductible, \$2,000,000 single occurrence limit and \$5,000,000 annual aggregate. The District is also protected by Nationwide with an umbrella liability coverage of \$5,000,000. Vehicles are covered by Nationwide Insurance with a \$250 deductible for comprehensive and \$1,000 for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from fiscal year 2000.

B. OSBA Workers's Compensation Group Rating

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Group Health Insurance

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

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

12. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains five enterprise funds to account for the operations of Food Services, Uniform School Supplies, Vocational Agriculture farm operations, the Swim Club, and Community Education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2001.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

	Food Service	Uniform School Supplies	Vo-Ag Farm	Swim Club	Community Education	Totals
Operating Revenues	\$461,569	\$92,693	\$36,274	\$273	\$182,268	\$773,077
Depreciation Expense	5,909		7,349			13,258
Operating Income (Loss)	(131,041)	(9,792)	(1,907)	273	(7,727)	(150,194)
Nonoperating Revenue:						
Operating Grants	151,121				20,706	171,827
Federal Commodities	48,424					48,424
Operating Transfers		12,500		1,048	3,570	17,118
Net Income (Loss)	68,644	2,708	(1,897)	1,321	16,579	87,355
Net Working Capital	139,535	2,908	7,772		(6,274)	143,941
Fixed Assets:						
Additions	35,454					35,454
Total Assets	254,799	3,038	50,781		19,970	328,588
Long-Term Liabilities Payables from Fund Revenues	62,529					62,529
Total Fund Equity	159,555	2,908	50,673		(6,274)	206,862
Encumbrances at June 30, 2001	49,702	2,433	2,763		3,828	58,726

13. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established 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. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14 percent for 2001; 4.2 percent was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$341,900, \$341,265, and \$317,410, respectively; 51 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$169,045, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,277,669, \$1,251,208, and \$1,231,541, respectively; 86 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$178,486, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2000, two members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$410,679 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989,

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 8.45 percent for fiscal year 2000. 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 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$266,692 during the 2001 fiscal year.

15. 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 \$25,000.

The retirees will receive \$10,000 in January of the calendar year following the year of retirement, and the balance of \$15,000 in January of the second calendar year following the year of retirement. A liability of \$195,000 for the retirement incentive has been recorded in the General Long-Term Obligations Account Group at June 30, 2001. The obligation will ultimately be paid from the fund in which the employee was paid.

16. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Budget Basis	(\$437,188)	(\$83,711)	\$194,191
Net Adjustments for Revenue Accruals	323,446	29,950	(5,196)
Net Adjustments for Expenditure Accruals	32,774	(16,848)	(2,623)
Net Adjustments for Other Financing Sources/(Uses)	19,141	(30,740)	
Adjustments for Encumbrances	249,909	114,714	215,136
GAAP Basis	\$188,082	\$13,365	\$401,508

17. CONTINGENT LIABILITIES

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

The District is a party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 14, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine the effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE PERIOD ENDED JUNE 30, 2001**

FEDERAL GRANTOR Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	C1-S1-2000 C1-S1-2001
Total Title 1		
Migrant Education - Basic State Grant Program	84.011	MG-S1-2000 MG-S1-2001
Total Migrant Education		
Eisenhower Professional Development State Grants	84.281	MS-S1-2001
Innovative Education Program Strategies	84.298	C2-S1-1999 CS-S1-1999-CO C2-S1-2000 C2-S1-2001
Total Innovative Education Program Strategies		
Special Education - Grants to States	84.027	6B-SF-2000 6B-SF-2001
Total Special Education		
Safe and Drug Free School and Communities - State Grants	84.186	DR-S1-2001
Class Size Reduction	84.340	CR-S1-2000 CR-S1-2001
Total Class Size Reduction		
Total Ohio Department of Education		
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed through Penta Career Center</i>		
Vocational Education - Basic Grants to States	84.048	2B-00-2001
Total United States Department of Education		
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Education:</i>		
Dependent Care Plan Subsidy	93.673	DC-S1-2000
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>		
Medical Assistance Program	93.778	-
Total United States Department of Health and Human Services		
UNITED STATES DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
Nutrition Cluster:		
Food Distribution Program	10.550	-
National School Lunch Program	10.555	LL-P1-2000 LL-P4-2000 LL-P1-2001 LL-P4-2001
Total United States Department of Agriculture - Nutrition Cluster		

TOTAL FEDERAL FINANCIAL ASSISTANCE

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-cash Receipts</u>	<u>Disbursements</u>	<u>Non-cash Disbursements</u>
		\$8,927	
\$84,086		72,209	
<u>84,086</u>		<u>81,136</u>	
		659	
5,323		5,323	
<u>5,323</u>		<u>5,982</u>	
6,485		6,485	
(31)			
		60	
		417	
10,748		10,730	
<u>10,717</u>		<u>11,207</u>	
		12,642	
101,197		112,676	
<u>101,197</u>		<u>125,318</u>	
2,702		1,795	
6,600		22,622	
7,461		9,340	
<u>14,061</u>		<u>31,962</u>	
<u>224,571</u>		<u>263,885</u>	
449		18,258	
<u>225,020</u>		<u>282,143</u>	
19,526		571	
18,880		44,780	
<u>38,406</u>		<u>45,351</u>	
	\$43,735		\$44,918
21,320		21,320	
11,299		11,299	
56,970		56,970	
<u>32,013</u>		<u>32,013</u>	
121,602	43,735	121,602	44,918
<u>\$385,028</u>	<u>\$43,735</u>	<u>449,096</u>	<u>\$44,918</u>

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2001**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.

NOTE C – MATCHING REQUIREMENTS

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



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1298

To the Board of Education:

We have audited the financial statements of Benton-Carroll-Salem Local School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the District in a separate letter dated February 14, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 14, 2002.

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

Jim Petro
Auditor of State

February 14, 2002



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www.auditor.state.oh.us

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

Benton-Carroll-Salem Local School District
Ottawa County
11685 West State Route 163
Oak Harbor, Ohio 43449-1298

To the Board of Education:

Compliance

We have audited the compliance of Benton-Carroll-Salem Local School District (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 are applicable to its major federal program for the year ended June 30, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

February 14, 2002

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

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):	Nutrition Cluster - CFDA #'s 10.550 and 10.555
(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.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
MARCH 7, 2002**