



**Auditor of State
Betty Montgomery**

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Blanchester Local School District
Clinton County
3580 S.R. 28
Blanchester, Ohio 45107

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, for the fiscal year ended June 30, 2004, the District reclassified activity formerly reported in the enterprise fund and as a business type activity to special revenue funds and governmental activity.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

May 12, 2005

BLANCHESTER LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June, 1999.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$1,250,437 which represents a 4.7% decrease from 2003.
- General revenues accounted for \$11,072,084 in revenue or 80.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,648,997 or 19.3% of total revenues of \$13,721,081.
- Total assets of governmental activities decreased by \$1,464,032 as taxes receivable increased by \$4,518 while cash and other receivables decreased by \$657,095.
- The District had \$14,971,518 in expenses related to governmental activities; \$2,648,997 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,072,084 were also used to provide for these programs.
- As a major fund, the General Fund had \$11,014,245 in revenues and \$11,436,350 in expenditures. The General Fund's balance decreased from \$1,994,446 to \$912,511. The Classroom Facility Fund had \$227,436 in revenues and \$294,779 in expenditures. The Classroom Facility Fund's balance increased from \$393,173 to \$987,397.

Using this Basic Financial Statement Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

Fiduciary Funds The District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2003 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$8,803,415	\$8,154,129
Capital Assets	<u>28,099,153</u>	<u>27,284,407</u>
Total Assets	<u>36,902,568</u>	<u>35,438,536</u>
Liabilities		
Long-Term Liabilities	4,942,959	4,892,530
Other Liabilities	<u>5,248,851</u>	<u>5,085,685</u>
Total Liabilities	<u>10,191,810</u>	<u>9,978,215</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	24,106,324	22,905,407
Restricted	1,853,850	2,255,611
Unrestricted	<u>750,584</u>	<u>299,303</u>
Total Net Assets	<u>\$26,710,758</u>	<u>\$25,460,321</u>

Total assets decreased \$1,464,032. Equity in pooled cash and cash equivalents decreased \$831,231. This increase represents the degree to which decreases in ongoing revenues have outstripped similar decreases in ongoing expenses. Taxes receivable increased \$4,518. This increase is due to increased personal property utility taxes and an increase in advances available from the Clinton County auditor. Total liabilities decreased \$213,595, resulting in a net asset decrease of \$1,250,437. The decrease in liabilities is due to decreases in deferred revenue and due in more than one year. The decrease in deferred revenue is due to an increase in delinquent property taxes and the decrease in due in more than one year is due to the pay down of bonds and notes.

Table 2 shows the change in net assets for fiscal year 2004 with comparisons to fiscal year 2003.

Table 2
Changes in Net Assets

	Governmental Activities <u>2003 Restated</u>	Governmental Activities <u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,038,983	\$1,090,324
Operating Grants	1,625,332	1,480,876
Capital Grants	82,121	77,797
General Revenue:		
Property Taxes	3,106,298	3,480,217
Grants and Entitlements	6,746,114	7,192,560
Other	<u>531,886</u>	<u>399,307</u>
Total Revenues	<u>13,130,734</u>	<u>13,721,081</u>
Program Expenses:		
Instruction	9,679,913	7,984,416
Support Services:		
Pupil and Instructional Staff	1,694,603	1,746,324
School and General Administration,		
Fiscal and Business	1,697,703	1,582,961
Operations and Maintenance	1,314,151	1,397,891
Pupil Transportation	667,245	894,530
Central	81,381	19,354
Operation of Non-Instructional Services	1,686,121	719,776
Extracurricular Activities	349,971	368,904
Interest and Fiscal Charges	<u>268,892</u>	<u>257,362</u>
Total Expenses	<u>17,439,980</u>	<u>14,971,518</u>
(Decrease) in Net Assets	<u>(4,309,246)</u>	<u>(1,250,437)</u>
Beginning Net Assets	31,020,004	26,710,758
Ending Net Assets	<u>\$26,710,758</u>	<u>\$25,460,321</u>

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general, debt service, special revenue and capital projects purposes and grants and entitlements comprised 77.8% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 25.4% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 53.3% of governmental program expenses. Instructional expenses increased due to additional grant funding received in 2004. Support services expenses were 38% of governmental program expenses. Fiscal and business support services decreased due to a decrease in accrued wages. Interest expense was 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2003 Restated	2004	2003 Restated	2004
Instruction	\$9,679,913	\$7,984,416	\$8,190,102	\$6,418,903
Support Services:				
Pupil and Instructional Staff	1,694,603	1,746,324	1,283,065	1,644,943
School and General Administration,				
Fiscal and Business	1,697,703	1,582,961	1,628,221	1,443,080
Operations and Maintenance	1,314,151	1,397,891	1,314,151	1,394,935
Pupil Transportation	667,245	894,530	637,774	876,392
Central	81,381	19,354	76,116	12,602
Operation of Non-Instructional Services	1,686,121	719,776	991,333	(2,383)
Extracurricular Activities	349,971	368,904	303,890	276,687
Interest and Fiscal Charges	<u>268,892</u>	<u>257,362</u>	<u>268,892</u>	<u>257,362</u>
Total Expenses	<u>\$17,439,980</u>	<u>\$14,971,518</u>	<u>\$14,693,544</u>	<u>\$12,322,521</u>

The District's Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,238,926 and expenditures and other financing uses of \$14,759,374. The net change in fund balance for the year was (\$520,448) or 17%. As a major fund, the General Fund had \$11,014,245 in revenues and \$11,436,350 in expenditures. The General Fund balance decreased from \$1,994,270 to \$912,511. As a major fund, the Classroom Facilities Fund had \$227,436 in revenues and \$294,779 in expenditures. The Classroom Facilities Fund balance increased from \$393,173 to \$987,397.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$10,955,703, below original budget estimates of \$11,431,740. Of this \$476,037 difference, most was due to overestimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance for the General Fund was \$1,872,385.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$27,284,407 invested in land, buildings, and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

	Governmental Activities	
	2003 Restated	2004
Land and Improvements	\$474,430	\$474,430
Buildings and Improvements	24,532,358	23,803,413
Equipment	<u>3,092,365</u>	<u>3,006,564</u>
Total Net Assets	<u>\$28,099,153</u>	<u>\$27,284,407</u>

The decrease in capital assets is due to the recognition of \$1,122,027 depreciation expense offset by \$307,281 in equipment additions. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$4,379,000 in bonds payable, \$225,000 due within one year. Table 5 summarizes bonds outstanding at year end.

Table 5
Outstanding Debt, at Year End

	Governmental Activities <u>2003</u>	Governmental Activities <u>2004</u>
Total:		
General Obligation Bonds:		
State Facilities Construction	\$4,235,000	\$4,065,000
Putman Addition and Junior High Gym	<u>359,000</u>	<u>314,000</u>
Total Outstanding Debt at Year End	<u>\$4,594,000</u>	<u>\$4,379,000</u>

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not “equitable” nor “adequate”. The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court’s concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darlene Rogers, Treasurer at Blanchester Local School District, 3580 St. Rt. 28, Blanchester, Ohio 45107. Or E-mail at rogersd@blanchester.k12.oh.us.

Blanchester Local School District
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$3,542,356
Restricted Cash and Investments	193,579
Receivables:	
Taxes	3,722,321
Accounts	201,102
Intergovernmental	485,327
Inventory	9,444
Nondepreciable Capital Assets	474,430
Depreciable Capital Assets, Net	<u>26,809,977</u>
 Total Assets	 <u>35,438,536</u>
Liabilities:	
Accounts Payable	181,461
Accrued Wages and Benefits	1,614,904
Accrued Interest Payable	20,687
Deferred Revenue	3,268,633
Long-Term Liabilities:	
Due Within One Year	245,482
Due In More Than One Year	<u>4,647,048</u>
 Total Liabilities	 <u>9,978,215</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	22,905,407
Restricted for:	
Special Revenue	585,770
Debt Service	328,747
Capital Projects	1,147,515
Set-Aside	193,579
Unrestricted	<u>299,303</u>
 Total Net Assets	 <u>\$25,460,321</u>

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities:						
Instruction:						
Regular	\$6,423,337	\$521,875	\$146,658	\$59,659	(\$5,695,145)	(\$5,695,145)
Special	1,000,027	0	286,297	0	(713,730)	(713,730)
Vocational	307,060	0	7,398	0	(299,662)	(299,662)
Other	253,992	0	543,626	0	289,634	289,634
Support Services:						
Pupil	554,319	0	13,094	0	(541,225)	(541,225)
Instructional Staff	1,192,005	0	88,287	0	(1,103,718)	(1,103,718)
General Administration	39,487	0	0	0	(39,487)	(39,487)
School Administration	1,229,550	83,349	56,350	0	(1,089,851)	(1,089,851)
Fiscal	307,765	0	182	0	(307,583)	(307,583)
Business	6,159	0	0	0	(6,159)	(6,159)
Operations and Maintenance	1,397,891	2,956	0	0	(1,394,935)	(1,394,935)
Pupil Transportation	894,530	0	0	18,138	(876,392)	(876,392)
Central	19,354	0	6,752	0	(12,602)	(12,602)
Operation of Non-Instructional Services	719,776	389,927	332,232	0	2,383	2,383
Extracurricular Activities	368,904	92,217	0	0	(276,687)	(276,687)
Interest and Fiscal Charges	257,362	0	0	0	(257,362)	(257,362)
Total Governmental Activities	14,971,518	1,090,324	1,480,876	77,797	(12,322,521)	(12,322,521)
Totals	\$14,971,518	\$1,090,324	\$1,480,876	\$77,797	(\$12,322,521)	(\$12,322,521)

General Revenues:

Property Taxes Levied for:

General Purposes	2,832,567	2,832,567
Special Revenue Purposes	63,721	63,721
Debt Service Purposes	485,286	485,286
Capital Projects Purposes	98,643	98,643
Grants and Entitlements not Restricted to Specific Programs	7,192,560	7,192,560
Unrestricted Contributions	6,222	6,222
Investment Earnings	79,898	79,898
Other Revenues	313,187	313,187

Total General Revenues 11,072,084 11,072,084

Change in Net Assets (1,250,437) (1,250,437)

Net Assets Beginning of Year 26,710,758 26,710,758

Net Assets End of Year \$25,460,321 \$25,460,321

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Classroom Facility	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$1,865,388	\$789,354	\$887,614	\$3,542,356
Restricted Cash and Investments	193,579	0	0	193,579
Receivables:				
Taxes	3,104,451	0	617,870	3,722,321
Accounts	135	198,043	2,924	201,102
Intergovernmental	0	0	485,327	485,327
Interfund	113,780	0	0	113,780
Inventory	0	0	9,444	9,444
Total Assets	5,277,333	987,397	2,003,179	8,267,909
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	88,052	0	93,409	181,461
Accrued Wages and Benefits	1,383,728	0	146,345	1,530,073
Compensated Absences	3,251	0	0	3,251
Interfund Payable	0	0	113,780	113,780
Deferred Revenue	2,889,791	0	998,433	3,888,224
Total Liabilities	4,364,822	0	1,351,967	5,716,789
Fund Balances:				
Reserved for Encumbrances	143,556	16,118	60,053	219,727
Reserved for Inventory	0	0	9,444	9,444
Reserved for Property Tax Advances	214,660	0	51,717	266,377
Reserved for Set-Aside	193,579	0	0	193,579
Unreserved, Undesignated, Reported in:				
General Fund	360,716	0	0	360,716
Special Revenue Funds	0	0	112,725	112,725
Debt Service Funds	0	0	286,436	286,436
Capital Projects Funds	0	971,279	130,837	1,102,116
Total Fund Balances	912,511	987,397	651,212	2,551,120
Total Liabilities and Fund Balances	\$5,277,333	\$987,397	\$2,003,179	\$8,267,909

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance		\$2,551,120
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,284,407
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	187,311	
Intergovernmental	<u>432,280</u>	
		619,591
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		0
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(20,687)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Pension Obligation	(84,831)	
Compensated Absences	<u>(510,279)</u>	
		(595,110)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(4,379,000)</u>
Net Assets of Governmental Activities		<u><u>\$25,460,321</u></u>

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Classroom Facility	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$2,677,626	\$0	\$615,280	\$3,292,906
Tuition and Fees	508,230	0	0	508,230
Investment Earnings	74,086	5,484	328	79,898
Intergovernmental	7,696,790	23,909	1,063,013	8,783,712
Extracurricular Activities	183	0	130,624	130,807
Charges for Services	325	0	448,006	448,331
Other Revenues	57,005	198,043	60,980	316,028
Total Revenues	11,014,245	227,436	2,318,231	13,559,912
Expenditures:				
Current:				
Instruction:				
Regular	5,032,737	0	382,459	5,415,196
Special	888,494	0	46,130	934,624
Vocational	300,828	0	5,437	306,265
Other	253,992	0	0	253,992
Support Services:				
Pupil	428,876	0	116,646	545,522
Instructional Staff	830,175	0	358,987	1,189,162
General Administration	39,487	0	0	39,487
School Administration	1,000,063	0	78,597	1,078,660
Fiscal	291,913	63	16,130	308,106
Business	6,159	0	0	6,159
Operations and Maintenance	1,326,153	0	4,925	1,331,078
Pupil Transportation	781,700	0	0	781,700
Central	16,170	0	3,184	19,354
Operation of Non-Instructional Services	12,936	0	662,033	674,969
Extracurricular Activities	220,910	0	134,156	355,066
Capital Outlay	5,757	294,716	72,883	373,356
Debt Service:				
Principal Retirement	0	0	215,000	215,000
Interest and Fiscal Charges	0	0	259,001	259,001
Total Expenditures	11,436,350	294,779	2,355,568	14,086,697
Excess of Revenues Over (Under) Expenditures	(422,105)	(67,343)	(37,337)	(526,785)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	1,737	0	4,600	6,337
Transfers In	5,555	667,122	0	672,677
Transfers (Out)	(667,122)	(5,555)	0	(672,677)
Total Other Financing Sources (Uses)	(659,830)	661,567	4,600	6,337
Net Change in Fund Balance	(1,081,935)	594,224	(32,737)	(520,448)
Fund Balance Beginning of Year	1,994,446	393,173	683,949	3,071,568
Fund Balance End of Year	\$912,511	\$987,397	\$651,212	\$2,551,120

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds (520,448)

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

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	307,281	
Depreciation Expense	<u>(1,122,027)</u>	(814,746)

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

Delinquent Property Taxes	187,311	
Intergovernmental	<u>(32,479)</u>	154,832

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 215,000

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. 1,639

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Pension Obligation	(28,761)	
Compensated Absences	<u>(257,953)</u>	(286,714)

The internal service fund used by management to charge back costs
 to individual funds is not reported in the district-wide statement of
 activities. Governmental fund expenditures and the related internal
 service fund revenues are eliminated. The net revenue (expense) of
 the internal service fund is allocated among the governmental activities. 0

Change in Net Assets of Governmental Activities	<u><u>(\$1,250,437)</u></u>
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See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$271,017	\$43,332
Receivables:		
Accounts	0	450
Total Assets	<u>271,017</u>	<u>\$43,782</u>
Liabilities:		
Accounts Payable	0	1,010
Other Liabilities	0	42,772
Total Liabilities	<u>0</u>	<u>\$43,782</u>
Net Assets:		
Held in Trust	<u>271,017</u>	
Total Net Assets	<u>\$271,017</u>	

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Investment Earnings	11,595
Other	<u>300</u>
Total Additions	<u>11,895</u>
Deductions:	
Other	<u>20,965</u>
Total Deductions	<u>20,965</u>
Change in Net Assets	(9,070)
Net Assets Beginning of Year	<u>280,087</u>
Net Assets End of Year	<u>\$271,017</u>

See accompanying notes to the Basic Financial Statements.

**BLANCHESTER LOCAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

1. DESCRIPTION OF THE DISTRICT

The Blanchester Local School District ("District") was originally organized in 1854 and known as Blanchester Village School. On July 1, 1959 Blanchester Village School, Jefferson Township School and Edenton Local School District became Blanchester Local School District. In 1853 State Laws were enacted to create local boards of education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected, five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This board controls the District's four instructional and support facilities staffed by 86 classified, 115 certified and six administrative employees to provide service to 1,649 students and other community members.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

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

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

Classroom Facilities Fund – The classroom facilities fund is used to account for transactions related to repair or improvement of classroom facilities.

Fiduciary Funds

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

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices. Certificates of deposits are reported at cost.

Interest revenue during fiscal year 2004 amounted to \$79,898.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expensed/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars (\$500). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building Improvements	20-40 years
Equipment	3-15 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The entire amount of compensated absences is reported as a fund liability in proprietary funds.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u> How Earned	<u>Certified</u> Not Eligible	<u>Administrators</u> Per Contract	<u>Non-Certificated</u> 10-20 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	Not Applicable	Not Applicable
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Not Applicable	Not Applicable
<u>Sick Leave</u> How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	210 days	Per Contract	210 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

NET ASSETS

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

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

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

INTERFUND ACTIVITY

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

FUND EQUITY

Reserved fund balances indicate a 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, inventory, property taxes advances and set-asides. The reserve for property tax advances represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

3. CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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 is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – At the year end, the carrying amount of the District's deposits was \$88,491. The bank balance of deposits was \$157,406 of which \$101,004 was covered by federal depository insurance. The remaining balance was covered by 105% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

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 department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
Money Market*	\$0	\$0	\$0	\$1,586,402
U.S. Treasury Direct	0	0	119,933	119,933
U.S. Government Securities	0	0	2,255,458	2,255,458
Total Investments	<u>\$0</u>	<u>\$0</u>	<u>\$2,375,391</u>	<u>\$3,961,793</u>

*The District's investment in the Money Market fund is not categorized because it is not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

4. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2004, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2004, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2004. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$214,660 for General Fund, \$39,003 for Debt Service, \$4,801 for Special Revenue and \$7,913 for Capital Projects, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2004 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$104,532,630
Public Utility Personal	84,177,450
Tangible Personal Property	<u>19,853,047</u>
Total	<u>\$208,563,127</u>

5. RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$474,430	\$0	\$0	\$474,430
Total Capital Assets, not being depreciated	<u>474,430</u>	<u>0</u>	<u>0</u>	<u>474,430</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	30,034,932	0	0	30,034,932
Equipment	<u>6,812,008</u>	<u>307,281</u>	<u>0</u>	<u>7,119,289</u>
Total Capital Assets, being depreciated	<u>36,846,940</u>	<u>307,281</u>	<u>0</u>	<u>37,154,221</u>
Totals at Historical Cost	<u>37,321,370</u>	<u>307,281</u>	<u>0</u>	<u>37,628,651</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,502,574	728,945	0	6,231,519
Equipment	<u>3,719,643</u>	<u>393,082</u>	<u>0</u>	<u>4,112,725</u>
Total Accumulated Depreciation	<u>9,222,217</u>	<u>1,122,027</u>	<u>0</u>	<u>10,344,244</u>
Governmental Activities Capital Assets, Net	<u>\$28,099,153</u>	<u>(\$814,746)</u>	<u>\$0</u>	<u>\$27,284,407</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$821,123
Special	62,694
Support Services:	
Pupils	1,373
School Administration	88,707
Operations and Maintenance	53,538
Pupil Transportation	44,873
Operation of Non-Instructional Services	36,143
Extracurricular Activities	<u>13,576</u>
Total Depreciation Expense	<u>\$1,122,027</u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
General Obligation Bonds:						
State Facilities Construction 2000 5.669%	12/01/22	\$4,235,000	\$ 0	\$170,000	\$4,065,000	\$180,000
Putnam Addition and Junior High Gym 1989 7.75%	12/01/10	<u>359,000</u>	<u>0</u>	<u>45,000</u>	<u>314,000</u>	<u>45,000</u>
Total General Obligation Bonds		4,594,000	0	215,000	4,379,000	225,000
Compensated Absences		<u>346,268</u>	<u>296,313</u>	<u>129,051</u>	<u>513,530</u>	<u>20,482</u>
Total Governmental Activities Long-Term Liabilities		<u>\$4,940,268</u>	<u>\$296,313</u>	<u>\$344,051</u>	<u>\$4,892,530</u>	<u>\$245,482</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

	<u>General Obligation Bonds</u>		
<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$225,000	\$247,244	\$472,244
2006	240,000	234,753	474,753
2007	265,000	221,146	486,146
2008	155,000	209,546	364,546
2009	160,000	200,461	360,461
2010-2014	889,000	847,797	1,736,797
2015-2019	1,290,000	516,825	1,806,825
2020-2024	<u>1,155,000</u>	<u>140,530</u>	<u>1,295,530</u>
Totals	<u>\$4,379,000</u>	<u>\$2,618,302</u>	<u>\$6,997,302</u>

8. DEFINED BENEFIT PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$254,196, \$244,728, and \$214,356 respectively; 50% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002. \$127,248 represents the unpaid contribution for fiscal year 2004.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.3%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$805,044, \$709,464, and \$671,028 respectively; 82% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002. \$147,760 represents the unpaid contribution for fiscal year 2004.

9. POST EMPLOYMENT BENEFITS

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

For STRS, all 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% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund for which payments for health care benefits are paid. For the District, this amount equaled \$57,503 during the 2004 fiscal year. As of June 30, 2004, eligible benefit recipients totaled 111,853. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000.

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

For 2004 fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$89,150 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,805.

10. CONTINGENT LIABILITIES

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 as of June 30, 2004.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

11. JOINTLY GOVERNED ORGANIZATIONS

The Miami Valley Educational Computer Association (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Mr. Steven Sutcliffe, Treasurer, Greene County Career Center, 2960 West Enon Road, Xenia, Ohio 45385.

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and from Federal and State grants. To obtain financial information write to: Mrs. Patrice Thompson, Treasurer, Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio 45177.

12. RELATED ORGANIZATION

Public Library - The Blanchester Public Library is a district political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Blanchester School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax-related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Blanchester Public Library, Mrs. Pamela Smith, Clerk/Treasurer, at 110 North Broadway, Blanchester, Ohio 45107.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers. Settled claims have not exceeded commercial coverage in any of the past four years.

The District provides health insurance to employees through a private carrier. They no longer provide benefits through a self insurance program.

14. STATE SCHOOL FUNDING DECISION

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

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

15. COMPLIANCE AND ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Summer Intervention	\$5,114
Alternative Schools	27,158
Special Education	33,615
Title I	39,838
Title V	2,016
Drug-Free Schools	246
Food Service	64,622

The deficit fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

16. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2004, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$84,306	\$ 0	\$117,965
Current Year Set-aside Requirement	233,653	233,653	0
Qualified Disbursements	(242,345)	(190,833)	0
Current Year Offsets	<u>0</u>	<u>(42,820)</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2004	<u>\$75,614</u>	<u>\$ 0</u>	<u>\$117,965</u>
Restricted Cash as of June 30, 2004	<u>\$193,579</u>		

Offset credits for capital activity during the year exceeded the amount required for the set-aside, resulting in offset credits of \$19,525,274 available for carryover to offset capital reserve requirements of future years. Qualifying disbursements and carryover from prior years for textbooks totaled \$242,345, resulting in \$75,614 for set-aside reserve balance for textbooks.

17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$113,780	\$0	\$5,555	\$667,122
Classroom Facility Fund	<u>0</u>	<u>0</u>	<u>667,122</u>	<u>5,555</u>
Nonmajor Funds:				
Summer Intervention	0	5,124	0	0
Vocational Education Enhancement	0	626	0	0
Alternative Schools	0	27,815	0	0
Miscellaneous State Grants	0	2,743	0	0
Special Education	0	5,267	0	0
Title I	0	15,667	0	0
Title V	0	10,576	0	0
Drug-Free Schools	0	1,217	0	0
Improving Teacher Quality	0	9,762	0	0
Food Service	<u>0</u>	<u>34,983</u>	<u>0</u>	<u>0</u>
Total Nonmajor Funds	<u>0</u>	<u>113,780</u>	<u>0</u>	<u>0</u>
Total All Funds	<u>\$113,780</u>	<u>\$113,780</u>	<u>\$672,677</u>	<u>\$672,677</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

18. PRIOR PERIOD ADJUSTMENT

The beginning net asset/fund balances of other governmental funds, enterprise and governmental activities have been adjusted for the correction to the capital assets detail, due to an inventory completed in 2004, and the reclassification of enterprise funds as follows:

	Enterprise	Classroom Facilities	Other		Business-Type Activities
			Governmental Funds	Governmental Activities	
June 30, 2003 Fund Balance/ Net Assets, as previously stated	\$686,796	\$503,499	\$708,871	\$29,577,497	\$686,796
Fund Reclassification	(686,796)	0	(24,922)	686,796	(686,796)
Correction of Error	0	(110,326)	0	(110,326)	0
Net Governmental Capital Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,443,207)</u>	<u>0</u>
June 30, 2003 Fund Balance/ Net Assets, as restated	<u>\$0</u>	<u>\$393,173</u>	<u>\$683,949</u>	<u>\$26,710,760</u>	<u>\$0</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Blanchester Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$2,730,777	\$2,617,063	\$2,617,063	\$0
Tuition and Fees	530,293	508,211	508,211	0
Investment Earnings	86,087	82,502	82,502	0
Intergovernmental	8,031,224	7,696,790	7,696,790	0
Other Revenues	53,359	51,137	51,137	0
Total Revenues	11,431,740	10,955,703	10,955,703	0
Expenditures:				
Current:				
Instruction:				
Regular	5,321,073	5,140,190	5,140,190	0
Special	872,314	842,661	842,661	0
Vocational	306,165	295,757	295,757	0
Other	268,369	259,246	259,246	0
Support Services:				
Pupil	439,183	424,254	424,254	0
Instructional Staff	862,409	833,093	833,093	0
General Administration	24,783	23,941	23,941	0
School Administration	1,027,174	992,257	992,257	0
Fiscal	312,988	302,348	302,348	0
Business	6,030	5,825	5,825	0
Operations and Maintenance	1,366,674	1,320,216	1,320,216	0
Pupil Transportation	847,826	819,005	819,005	0
Central	43,974	42,479	42,479	0
Operation of Non-Instructional Services	13,064	12,620	12,620	0
Extracurricular Activities	223,062	215,479	215,479	0
Capital Outlay	22,797	22,022	22,022	0
Total Expenditures	11,957,885	11,551,393	11,551,393	0
Excess of Revenues Over (Under) Expenditures	(526,145)	(595,690)	(595,690)	0
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	1,812	1,737	1,737	0
Advances In	136,305	130,629	130,629	0
Advances (Out)	(157,318)	(151,970)	(151,970)	0
Transfers In	1,049,247	1,005,555	1,005,555	0
Transfers (Out)	(1,725,788)	(1,667,122)	(1,667,122)	0
Total Other Financing Sources (Uses)	(695,742)	(681,171)	(681,171)	0
Net Change in Fund Balance	(1,221,887)	(1,276,861)	(1,276,861)	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	3,149,246	3,149,246	3,149,246	0
Fund Balance End of Year	\$1,927,359	\$1,872,385	\$1,872,385	\$0

See accompanying notes to the required supplementary information.

BLANCHESTER LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

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

Any budgetary modifications at the fund and function level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

Tax Budget

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

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

Appropriations

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

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations

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

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	(\$1,081,944)
Net Adjustment for Revenue Accruals	1,072,412
Net Adjustment for Expenditure Accruals	(1,086,212)
Encumbrances	<u>(181,117)</u>
Budget Basis	<u>(\$1,276,861)</u>

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	0	\$27,495	\$0	\$27,495
National School Breakfast Program	05-PU-2004 05-PU-2003	10.553	19,025 5,439	----- -----	19,025 5,439	----- -----
National School Lunch	LLP4-2004 LLP4-2003	10.555	104,233 38,459	----- -----	104,233 38,459	----- -----
Total U.S. Department of Agriculture			167,156	27,495	167,156	27,495
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education.</i>						
Education Consolidation and Improvement Act						
Title I - FY 04	C1-S1-04	84.010	180,602	-----	200,817	-----
Title I - FY 03	C1-S1-03		24,896	-----	44,403	-----
<i>Total Title I</i>			205,498	0	245,220	0
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B - FY04	6BSF-2004	84.027	203,545	-----	207,699	-----
Title VI B - FY03	6BSF-2003-P		58,143	-----	77,965	-----
Access Continuation Grant	6BSD-2004-P		21,550	-----	13,473	-----
Access Grant	6BSD-2003-P		34,866	-----	48,997	-----
Educational Handicapped Preschool						
Preschool Subsidy - FY 04	PG-S1-04	84.173	4,605	-----	5,461	-----
Preschool Subsidy - FY 03	PG-S1-03-P		272	-----	-----	-----
<i>Total Special Education Cluster</i>			322,981	0	353,595	0
Drug Free Schools						
Drug Free Education - Subsidy - FY 04	DR-S1-04	84.186	4,166	-----	6,367	-----
Drug Free Education - Subsidy - FY 03	DR-S1-03		1,454	-----	1,863	-----
<i>Total Drug Free School Grants</i>			5,620	0	8,230	0
Innovative Educational Program Strategies						
Innovative Ed - FY 04	C2-S1-04	84.298	1,659	-----	12,842	-----
Innovative Ed - FY 03	C2-S1-03		-----	-----	1,281	-----
<i>Total Innovative Ed</i>			1,659	0	14,123	0
Additional Programs:						
Educational Technology - FY 04	TJ-S1-04	84.318	5,610	-----	6,254	-----
Educational Technology - FY 03	TJ-S1-03		549	-----	238	-----
Assistive Technology	AT-S	84.352A	(9,824)	-----	2,998	-----
Improving Teacher Quality - FY 04	TR-S1-04	84.367	41,161	-----	52,827	-----
Improving Teacher Quality - FY 03	TR-S1-03		23,948	-----	20,042	-----
<i>Total Additional Programs</i>			61,444	0	82,359	0
Total Department of Education			597,202	0	703,527	0
<u>U.S. DEPARTMENT OF HUMAN SERVICES</u>						
<i>Passed through Ohio Department of MRDD.</i>						
Medical Assistance Program/CAFS	N/A	93.778	13,083	-----	13,083	-----
Total Department of Human Services			13,083	0	13,083	0
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$777,441	\$27,495	\$883,766	\$27,495

The accompanying notes to this schedule are an integral part of this schedule.

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

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, 2004, the District had no significant food commodities in inventory.

NOTE C – COMMUNITY ALTERNATIVE FUNDING SYSTEM

Receipts for this grant are posted to the general fund. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Blanchester Local School District
Clinton County
3580 S.R. 28
Blanchester, Ohio 45107

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Blanchester Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 12, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 12, 2005, we reported other matters related to noncompliance we deemed immaterial.

Blanchester Local School District
Clinton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance and Other
Matters Required By *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

May 12, 2005



**Auditor of State
Betty Montgomery**

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

Blanchester Local School District
Clinton County
3580 S. R 28
Blanchester, Ohio 45107

To the Board of Education:

Compliance

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

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

In our opinion, the Blanchester Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

May 12, 2005

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

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 non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster, Special Education Grants to State, Title VI-B, CFDA # 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-01	Ohio Rev. Code, Section 5705.41(D). The availability of funds was not certified for certain commitments.	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON 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
JUNE 9, 2005**