



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton-Carroll-Salem Local School District, Ottawa County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Benton-Carroll-Salem Local School District, Ottawa County, Ohio, as of June 30, 2005, and the respective changes in modified cash financial position and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 1 describes.

As discussed in Note 3, the District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

June 9, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

This discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the year ended June 30, 2005, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$213,150, or 2.8 percent. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2005; however, cost increases affected most funds.
- The District's general governmental receipts were \$16,916,164 or 87 percent of all revenue. Those being primarily property taxes and unrestricted state entitlements, Program specific revenues in the form of charges for services and operating grants and contributions and capital grants and contributions accounted for \$2,492,977 or 13 percent of total revenues of \$19,409,141.
- The District had \$19,622,291 in disbursements related to governmental activities: only \$2,492,977 of these disbursements were offset by program specific charges for services, grants and contributions and capital grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$16,916,164 were not adequate to provide for these programs.
- The District's major governmental funds were the general and permanent improvement funds. The general fund had \$16,489,862 in revenues and other financing sources and \$16,916,981 in disbursements and other financing uses. The permanent improvement fund had \$531,553 in revenues, and \$463,138 in disbursements. During fiscal year 2005, the general funds fund balance, decreased \$427,119 from \$5,674,432 to \$5,247,313. The permanent improvement fund balance increased \$68,415 from \$1,692,279 to \$1,760,694.
- The District attempted three levy requests during the fiscal year. All were defeated.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the District as a Whole

The statement of net assets and the statement of activities reflect how the District did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Factors which contribute to these changes may include, but not limited to, the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, and required educational programs.

In the statement of net assets and the statement of activities, the Governmental Activities include the District's programs and services including instruction, support services, non-instructional services, extracurricular activities, capital outlay and debt service disbursements.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the District are split into two categories: governmental and fiduciary.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Governmental Funds - Most of the District activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's major governmental funds are the General Fund and the Permanent Improvement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the District's programs.

The District as a Whole

Table 1 provides a summary of the District's net assets for 2005 compared to 2004 on a modified cash basis:

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$ 7,431,122	\$ 7,644,272
Total Assets	<u>\$ 7,431,122</u>	<u>\$ 7,644,272</u>
Net Assets		
Restricted for:		
Set Asides	537,554	
Capital Projects	1,861,669	1,692,279
Other Purposes	322,140	277,561
Unrestricted	<u>4,709,759</u>	<u>5,674,432</u>
Total Net Assets	<u>\$7,431,122</u>	<u>\$7,644,272</u>

As mentioned previously, net assets of governmental activities decreased \$ 213,150 or 2.8 percent during 2005. The primary reason contributing to the decreases in cash balances is as follows:

- Reduction in real estate taxes collected due to a lower reported public utility value.

Table 2 reflects the changes in net assets in 2005. Since the District did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
	<u>2005</u>
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$1,079,447
Operating Grants and Contributions	1,095,268
Capital Grants and Contributions	318,262
Total Program Receipts	<u>2,492,977</u>
General Receipts:	
Property and Other Local Taxes	7,284,093
Grants and Entitlements Not Restricted to Specific Programs	9,173,811
Sale of Asset	200
General Obligation Bonds Issued	246,559
Interest	163,921
Miscellaneous	47,580
Total General Receipts	<u>16,916,164</u>
Total Receipts	<u>19,409,141</u>
Disbursements:	
Program expenses:	
Regular	8,491,891
Special	1,565,669
Vocational	86,189
Other	174,022
Support Services:	
Pupil	1,142,371
Instructional Staff	812,781
Board of Education	104,973
Administration	1,509,354
Fiscal	386,361
Operation and Maintenance of Plant	2,085,434
Pupil Transportation	1,107,603
Central	356,062
Extracurricular Activities	496,458
Capital Outlay	283,176
Food Service Operation	652,130
Community Services	263,156
Debt Service	104,661
Total Disbursements	<u>19,622,291</u>
Decrease in Net Assets	(213,150)
Net Assets, July 1, 2004	7,644,272
Net Assets, June 30, 2005	<u><u>\$7,431,122</u></u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Program receipts represent only 13 percent of total receipts and are primarily comprised of restricted intergovernmental receipts.

General receipts represent 87 percent of the District's total receipts, and of this amount, over 43 percent are local taxes. State and federal grants and entitlements make up the majority of the balance of the District's general receipts (54 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services, which accounts for 52 and 38 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2005	Net Cost of Services 2005
	<u>2005</u>	<u>2005</u>
Regular	\$8,491,891	\$8,097,036
Special	1,565,669	1,374,501
Vocational	86,189	76,488
Other	174,022	165,008
Support Services:		
Pupil	1,142,371	862,540
Instructional Staff	812,781	784,470
Board of Education	104,973	104,973
Administration	1,509,354	1,393,844
Fiscal	386,361	386,361
Operation and Maintenance of Plant	2,085,434	2,056,253
Pupil Transportation	1,107,603	1,012,889
Central	356,062	246,733
Operation of Non-Instructional Services		
Food Services Operation	652,130	(48,202)
Community Services	263,156	14,702
Extracurricular Activities	496,458	360,630
Capital Outlay	283,176	136,427
Debt Service	104,661	104,661
	<u>19,622,291</u>	<u>17,129,314</u>
Total Expenses	<u>\$19,622,291</u>	<u>\$17,129,314</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The dependence upon tax receipts and unrestricted state entitlements is apparent 94 percent of instructional activities are supported through these general receipts. For all governmental activities, general revenue support is 87 percent. The District's taxpayers, as a whole, are by far the primary support of District students.

The District's Funds

Total governmental funds had receipts and other financing sources of \$19,467,641 and disbursements and other financing uses of \$19,680,791. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$427,119 as the result of a reduction in public utility tax receipts.

General Fund Budgeting Highlights

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

During 2005, the District amended its General Fund budget several times to reflect changing circumstances. There were no changes from the original budgeted receipts to the final. The District's actual revenues from state sources was \$926,379 more than anticipated. The majority of this is due to receiving more monies from the property tax relief fund than anticipated.

General Fund original budgeted appropriations (appropriated expenditures plus other financing uses) of \$16,765,707 were raised to \$17,467,507 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$17,121,964 which was \$345,543 less than the final budget appropriations.

The actual expenditures for Regular and Special instruction were less than appropriated expenditures due to a reduction in full-time teachers. Actual expenditures for Operation and Maintenance of Plant were over appropriated expenditures due to the rising energy costs and additional repair work during the year.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets are not reflected in the other comprehensive basis of accounting statements, however the District does track capital assets through the State provided software program.

Debt

At June 30, 2005, the District's outstanding debt of \$291,363 was an energy conservation loan that was used for improvements to buildings and structures to conserve energy. The loan maturity date is January 29, 2009, with semi-annual payments of \$50,000 plus interest each year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Current Issues

General Fund receipts were less than disbursements by \$427,119 indicating that the General Fund is in a deficit spending situation. It was the recommendation of the finance committee and the administration to request additional funds from the taxpayers and to reduce expenditures where feasible. Three levy attempts during the year were unsuccessful. Reductions have been implemented for 2006 including replacing three full time teachers with three part-time teachers. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property taxes remains stagnant.

The challenge for all districts is to provide quality educational services to the public while staying within the restrictions imposed by limited funding, and in some cases shrinking funding. The District relies heavily on unrestricted state entitlements and local taxes.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jeff Dornbusch, Treasurer, Benton-Carroll-Salem Local School District, 11685 West State Route 163, Oak Harbor, OH 43449-1278.

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

**Statement of Net Assets - Modified Cash Basis
June 30, 2005**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$7,431,122</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$1,861,669
Set Asides	537,554
Other Purposes	322,140
Unrestricted	<u>4,709,759</u>
<i>Total Net Assets</i>	<u><u>\$7,431,122</u></u>

See accompanying notes to the basic financial statements

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

**Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005**

	Program Cash Receipts			Net (Disbursements)
	Cash Disbursements	Charges	Operating	Receipts and
		for Services and Sales	Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$8,491,891	\$175,258	\$219,597	(\$8,097,036)
Special	1,565,669		191,168	(1,374,501)
Vocational	86,189	9,701		(76,488)
Other	174,022	9,014		(165,008)
Support Services:				
Pupil	1,142,371		279,831	(862,540)
Instructional Staff	812,781		28,311	(784,470)
Board of Education	104,973			(104,973)
Administration	1,509,354	20,652	94,858	(1,393,844)
Fiscal	386,361			(386,361)
Operation and Maintenance of Plant	2,085,434	21,997	7,184	(2,056,253)
Pupil Transportation	1,107,603			(1,012,889)
Central	356,062		32,530	(246,733)
Operation of Non-Instructional Services				
Food Services Operation	652,130	527,922	172,410	48,202
Community Services	263,156	179,075	69,379	(14,702)
Extracurricular Activities	496,458	135,828		(360,630)
Capital Outlay	283,176			(136,427)
Debt Service	104,661			(104,661)
Total Governmental Activities	\$19,622,291	\$1,079,447	\$1,095,268	\$318,262
				(17,129,314)

General Receipts

Property Taxes Levied for:

General Purposes	7,040,724
Capital Outlay	243,369
Grants and Entitlements not Restricted to Specific Programs	9,173,811
Sales of Assets	200
General Obligation Bonds Issued	246,559
Interest	163,921
Miscellaneous	47,580
Total General Receipts	16,916,164
Change in Net Assets	(213,150)
Net Assets Beginning of Year	7,644,272
Net Assets End of Year	\$7,431,122

See accompanying notes to the basic financial statements

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

**Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	General	Permanent Improvement	Other Governmental Funds	Total Government Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,709,759	\$1,760,694	\$423,115	\$6,893,568
Restricted Equity in Pooled Cash and Cash Equivalents	537,554			537,554
<i>Total Assets</i>	<u>\$ 5,247,313</u>	<u>\$1,760,694</u>	<u>\$423,115</u>	<u>\$7,431,122</u>
Fund Balances				
Reserved for:				
Encumbrances	\$204,983	\$254,145	\$149,590	\$608,718
Bus Purchases	18,518			18,518
Textbooks	415,265			415,265
Capital Acquisition	8,664			8,664
Budget Stabilization	95,107			95,107
Unreserved:				
Undesignated, Reported in				
General Fund	4,504,776			4,504,776
Special Revenue Funds			246,744	246,744
Capital Projects Funds		1,506,549	26,781	1,533,330
<i>Total Fund Balances</i>	<u>\$5,247,313</u>	<u>\$1,760,694</u>	<u>\$423,115</u>	<u>\$7,431,122</u>

See accompanying notes to the basic financial statements

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

**Statement of Cash Receipts, Disbursements and Changes in
Fund Balances - Modified Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$7,040,724	\$243,369		\$7,284,093
Intergovernmental	9,212,685	282,209	\$1,092,447	10,587,341
Interest	157,896	5,975	50	163,921
Tuition and Fees	57,198		98,111	155,309
Extracurricular Activities	9,623		199,260	208,883
Charges for Service			715,255	715,255
Miscellaneous	8,965		36,044	45,009
<i>Total Receipts</i>	<u>16,487,091</u>	<u>531,553</u>	<u>2,141,167</u>	<u>19,159,811</u>
Disbursements				
Current:				
Instruction:				
Regular	8,126,411	3,375	362,105	8,491,891
Special	1,396,505		169,164	1,565,669
Vocational	86,189			86,189
Other	163,578		10,444	174,022
Support Services:				
Pupil	863,143		279,228	1,142,371
Instructional Staff	787,109		25,672	812,781
Board of Education	104,973			104,973
Administration	1,386,839		122,515	1,509,354
Fiscal	382,200	4,161		386,361
Operation and Maintenance of Plant	2,059,464		25,970	2,085,434
Pupil Transportation	987,994	119,609		1,107,603
Central	152,548	95,835	107,679	356,062
Operation of Non-Instructional Services				
Food Service Operation			652,130	652,130
Community Services			263,156	263,156
Extracurricular Activities	361,408		135,050	496,458
Capital Outlay	120	135,497	147,559	283,176
Debt Service:				
Principal		100,000		100,000
Interest and Fiscal Charges		4,661		4,661
<i>Total Disbursements</i>	<u>16,858,481</u>	<u>463,138</u>	<u>2,300,672</u>	<u>19,622,291</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(371,390)</u>	<u>68,415</u>	<u>(159,505)</u>	<u>(462,480)</u>
Other Financing Sources (Uses):				
General Obligation Bonds Issued			246,559	246,559
Sale of Assets	200			200
Transfers In			58,500	58,500
Refund of Prior Year Expenditures	2,571			2,571
Transfers Out	(58,500)			(58,500)
<i>Net Change in Fund Balances</i>	<u>(427,119)</u>	<u>68,415</u>	<u>145,554</u>	<u>(213,150)</u>
<i>Fund Balances Beginning of Year</i>	<u>5,674,432</u>	<u>1,692,279</u>	<u>277,561</u>	<u>7,644,272</u>
<i>Fund Balances End of Year</i>	<u>\$5,247,313</u>	<u>\$1,760,694</u>	<u>\$423,115</u>	<u>\$7,431,122</u>

See accompanying notes to the basic financial statements

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

**Statement of Receipts, Disbursements and Changes in Fund Balance
Budget and Actual Comparison -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$6,543,641	\$6,543,641	\$7,040,724	\$497,083
Tuition and Fees	51,099	\$51,099	57,198	6,099
Earnings on investments	135,261	\$135,261	157,896	22,635
Extracurricular	7,514	\$7,514	9,623	2,109
Other local revenues	7,500	\$7,500	8,965	1,465
Intergovernmental - State	8,265,950	8,265,950	9,192,329	926,379
Intergovernmental - Federal	18,035	18,035	20,356	2,321
<i>Total receipts</i>	<u>15,029,000</u>	<u>15,029,000</u>	<u>16,487,091</u>	<u>1,458,091</u>
Disbursements				
Current:				
Instruction:				
Regular	7,789,714	8,489,714	8,141,375	348,339
Special	1,632,687	1,632,687	1,411,612	221,075
Vocational	91,520	93,320	86,254	7,066
Other	156,385	156,385	181,001	(24,616)
Support Services:				
Pupil	872,018	872,018	864,275	7,743
Instructional Staff	873,882	873,882	807,817	66,065
Board of Education	131,635	131,635	124,520	7,115
Administration	1,323,270	1,323,270	1,394,967	(71,697)
Fiscal	386,226	386,226	388,009	(1,783)
Operation and Maintenance of Plant	1,972,702	1,972,702	2,135,117	(162,415)
Pupil Transportation	943,789	943,789	1,014,441	(70,652)
Central	158,454	158,454	152,548	5,906
Operation of Non-Instructional Services:				
Extracurricular Activities	374,805	374,805	361,408	13,397
Capital Outlay	120	120	120	0
<i>Total Disbursements</i>	<u>16,707,207</u>	<u>17,409,007</u>	<u>17,063,464</u>	<u>345,543</u>
<i>Excess of Receipts Over Disbursements</i>	<u>(1,678,207)</u>	<u>(2,380,007)</u>	<u>(576,373)</u>	<u>1,803,634</u>
Other Financing Sources (Uses)				
Refund of prior year expenditures			2,571	2,571
Proceeds from sale of capital assets			200	200
Transfers (out)	(58,500)	(58,500)	(58,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(58,500)</u>	<u>(58,500)</u>	<u>(55,729)</u>	<u>2,771</u>
<i>Net Change in Fund Balance</i>	<u>(1,736,707)</u>	<u>(2,438,507)</u>	<u>(632,102)</u>	<u>1,806,405</u>
<i>Fund Balance Beginning of Year</i>	<u>5,336,572</u>	<u>5,336,572</u>	<u>5,336,572</u>	
Prior Year Encumbrances Appropriated	337,860	337,860	337,860	
<i>Fund Balance End of Year</i>	<u>\$3,937,725</u>	<u>\$3,235,925</u>	<u>\$5,042,330</u>	<u>\$1,806,405</u>

See accompanying notes to the basic financial statements

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

**Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005**

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$72,217</u></u>
Net Assets	
Held for Student Activities	<u><u>\$72,217</u></u>

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - REPORTING ENTITY

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

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

The District currently operates 6 instructional buildings, 1 administrative building and a bus garage. The District employs 107 non-certified and 138 certified (including administrative) full-time and part-time employees to provide services to approximately 1,957 students in grades K through 12 and various community groups.

A. Primary Government

The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool, and student related activities of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District.

Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (primary government). The following organizations are described due to their relationships to the District.

C. Jointly Governed Organizations

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 1 - REPORTING ENTITY – (CONTINUED)

among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. All revenues are generated from a combination of state funding and annual fee per student charged to participating districts. The District paid \$ 37,969 to NOECA for services in fiscal year 2005. Financial information is available from the Erie-Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments (BACG)

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

Northwestern Ohio Educational Research Council, Incorporated

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

The District also participates in two public entity risk sharing pools, described in Note 8.

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials Workers' Compensation Group Plan

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program.. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the District's general receipts.

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

B. Fund Accounting

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the District's major 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 to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

Fiduciary Funds

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

C. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements 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 for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the 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 amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment 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 fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, the District invested in nonnegotiable and negotiable certificates of deposit, commercial paper, federal agency securities, and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$157,896, which included \$39,138 assigned from other District funds.

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization and to create a reserve for instructional materials and capital acquisition. In addition, the District reports restricted assets for school bus purchases. See Note 12 for details.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

L. Net 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, bus purchases, textbooks, capital acquisition and budget stabilization.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

A. Change in Basis of Accounting

For 2005, the District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Permanent Improvement	Other Governmental	Total Governmental
Fund Balance June 30, 2004	\$4,321,584	\$1,634,333	\$312,150	\$6,268,067
Eliminate Asset Accruals	(6,536,800)	(245,813)	(81,164)	(6,863,777)
Eliminate Inventory	(65,256)		(21,678)	(86,934)
Eliminate Prepaid Items	(13,643)		(725)	(14,368)
Eliminate Liability Accruals	7,968,547	303,759	68,978	8,341,284
Adjusted Fund Balance June 30, 2004	<u>\$5,674,432</u>	<u>\$1,692,279</u>	<u>\$277,561</u>	<u>\$7,644,272</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY –
(CONTINUED)**

Government Activities Net Assets June 30, 2004	\$15,910,498
Eliminate Government-Wide Financial Statement Adjustments	
Taxes Receivable	(6,744,936)
Accounts Receivable	(490)
Intergovernmental Receivable	(80,694)
Accrued Interest	(37,657)
Prepayments	(14,368)
Materials & Supplies Inventory	(86,934)
Capital Assets	(11,032,125)
Accounts Payable	124,848
Accrued Wages & Benefits	1,310,154
Pension Obligation Payable	464,789
Intergovernmental Payable	93,711
Deferred Revenue	5,696,285
Long-Term Liability	
Due within one year	340,634
Due in more than one year	1,700,557
	<u>1,700,557</u>
Adjusted Governmental Activities Net Assets June 30, 2004	<u>\$7,644,272</u>

NOTE 4 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$204,983
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**BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

At year end, the District had \$4,170 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

At June 30, 2005, the carrying amount of all District deposits was \$3,218,354. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,832,383 of the District's bank balance of \$3,330,383 was exposed to custodial risk as discussed below, while \$498,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. Deposits of \$1,932,383 were collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds. Deposits of \$900,000 were collateralized by specific pledged collateral held at the Federal Reserve Bank in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Carrying Amount</u>	<u>Maturities 6 months or less</u>	<u>Maturities 7 to 12 Months</u>	<u>Maturities 19 to 24 Months</u>	<u>Total</u>
Negotiable Certificate of Deposit	\$ 98,000		\$ 98,000		\$ 98,000
STAR Ohio	413,414	\$ 413,414			413,414
Commercial Paper	495,901	495,901			495,901
FHLMC DN	2,273,500	2,273,500			2,273,500
FHLB	1,000,000			1,000,000	1,000,000
	<u>\$ 4,280,815</u>	<u>\$ 3,182,815</u>	<u>\$ 98,000</u>	<u>\$ 1,000,000</u>	<u>\$ 4,280,815</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

The weighted average maturity of investments is .57 years.

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits the investment in commercial paper to a maximum of 180 days from the date of purchase. Interim certificates of deposit must mature within one year and inactive certificates of deposit must mature no later than the expiration of the depository agreement.

Credit Risk: The District's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District's investments in commercial paper has been rated A-1+ by Standard & Poor's. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and commercial paper must be rated in the highest classification by at least two nationally-recognized rating services. The District's investment policy does not address investment credit risk beyond the requirements of state statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has \$3,769,401 of investments exposed to custodial credit risk. The Federal Home Loan Mortgage Corporation Discount Notes, the Federal Home Loan Bank Notes, and Commercial Paper are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee.

Concentration of Credit Risk: The District places no dollar limit on the amount that may be invested in any one issuer. State statute limits investments in commercial paper to 25% of the interim monies available for investment at any one time. The following table includes the percentage of **EACH** investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Negotiable Certificate of Deposit	\$ 98,000	2.29%
STAR Ohio	413,414	9.66%
Commercial Paper	495,901	11.58%
FHLMC DN	2,273,500	53.11%
FHLB	<u>1,000,000</u>	<u>23.36%</u>
	<u>\$ 4,280,815</u>	<u>100.00%</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,218,354
Investments	4,280,815
Cash on hand	<u>4,170</u>
Total	<u>\$ 7,503,339</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 7,431,122
Agency funds	<u>72,217</u>
Total	<u>\$ 7,503,339</u>

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 - PROPERTY TAXES – (CONTINUED)

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 224,825,080	74.14	\$ 227,942,810	71.74
Public utility personal property	68,476,850	22.58	82,746,700	26.04
Tangible personal property	<u>9,955,443</u>	<u>3.28</u>	<u>7,049,059</u>	<u>2.22</u>
Total	<u>\$ 303,257,373</u>	<u>100.00</u>	<u>\$ 317,738,569</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 36.13		\$ 36.13	
Permanent improvement	1.20		1.20	

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. For fiscal year 2005 the District contracted with private carriers for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy. The private carrier also covers boiler and machinery with a \$1,000 deductible and a \$30,000,000 limit.

Professional liability is provided by Todd & Associates with a zero deductible, \$1,000,000 single occurrence limit and \$2,000,000 annual aggregate. The District is also protected by Todd & Associates with an umbrella liability coverage of \$10,000,000. Vehicles are covered by Todd & Associates with a \$1,000 deductible for comprehensive and for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from fiscal 2004

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - RISK MANAGEMENT – (CONTINUED)

B. Workers' Compensation Group Rating

For fiscal year 2005, the District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Group Health Insurance

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

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 10. As such, no funding provisions are required by the District.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$293,339, \$253,582, and \$218,127, respectively.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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 the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$ 1,104,365, \$1,115,367, and \$1,116,259, respectively. Contributions to the DC and Combined Plans for fiscal 2005 were \$5,353 made by the District and \$15,743 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 10 – POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal years ended June 30, 2005 and June 30, 2004, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$84,951 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 – POSTEMPLOYMENT BENEFITS – (CONTINUED)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005, were \$178.221 million and the target level is 150% of the projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$136,624 during the 2005 fiscal year.

NOTE 11 – LONG-TERM OBLIGATIONS

A. Energy Conservation Loan

A \$500,000 energy conservation loan was issued on January 29, 2004, matures on January 29, 2009, and carries an interest rate of 3.2%. The District's balance at July 1, 2004, was \$144,804 and they had additions of \$246,559 and payments of \$100,000 which resulted in a balance of \$291,363 at June 30, 2005. As of June 30, 2005, \$391,363 has been drawn down on the loan. Loan repayments consist of semi-annual payments of \$50,000 plus interest. The loan was issued in order to provide for energy improvements to District buildings. The loan is a general obligation of the District and is accounted for on the statement of net assets. The source of payment is derived through the energy savings attained as a result of the energy improvements.

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$28,596,471, an unvoted debt margin of \$317,738, and an energy conservation debt margin of \$2,859,647.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 – STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of June 30, 2004	\$ 326,575		\$ 95,107
Current year set-aside requirement	270,091	\$ 270,091	
Current year offsets	-	(243,369)	
Qualifying disbursements	(181,401)	(18,058)	-
Total	\$ 415,265	\$ 8,664	\$ 95,107
Balance carried forward to FY 2005	\$ 415,265	\$ 8,664	\$ 95,107

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

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

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	\$ 95,107
Amount restricted for instructional materials	415,265
Amount restricted for capital acquisition	8,664
Amount restricted for school bus purchases	18,518
Total restricted assets	\$537,554

NOTE 13 – CONTINGENT LIABILITIES

A. Grants

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 – CONTINGENT LIABILITIES – (CONTINUED)

B. Litigation

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

C. State School Funding Decision

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

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

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

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
UNITED STATES DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
School Breakfast Program	048926-05PU-2004 048926-05PU-2005	10.553
Total School Breakfast Program		
National School Lunch Program	048926-LLP4-2004 048926-LLP4-2005 048926-VGS1-2003	10.555
Total National School Lunch		
Total Department of Agriculture - Nutrition Cluster		
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Special Education Grants to States (IDEA Part B)	048926-6BSF-04 048926-6BPB-05 048926-6BSF-05	84.027
Total Special Education Grants to States		
Passed Through Erie-Huron-Ottawa Educational Service Center:		
Pre-School Grant	125690-PGS1-05	84.173
Total Special Education Cluster		
Passed Through Ohio Department of Education:		
Migrant Education Basic State Grant Program	048926-MGS1-05	84.011
Grants to Local Educational Agencies (ESEA Title I)	048926-C1S1-04 048926-C1S1-05	84.010
Total Title I		

<u>Federal Receipts</u>	<u>Non-Cash Receipts</u>	<u>Federal Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$ 60,601		\$ 60,601
\$ 5,705		\$ 5,705	
16,706		16,706	
<u>22,411</u>		<u>22,411</u>	
41,451		41,451	
109,449		109,449	
4,207		4,207	
<u>155,107</u>		<u>155,107</u>	
<u>177,518</u>	<u>60,601</u>	<u>177,518</u>	<u>60,601</u>
19,734		6,014	
454,556		15,422	
<u>474,290</u>		<u>454,115</u>	
		475,551	
18,549		17,063	
<u>492,839</u>		<u>492,614</u>	
7,971		7,564	
157,380		1,321	
<u>157,380</u>		<u>132,735</u>	
		134,056	

Innovative Educational Program Strategies	048926-C2S10-02 048926-C2S10-03 048926-C2S10-04 048926-C2S1-05	84.298
Total Innovative Educational Program Strategies		
Drug-Free Schools Grant	048926-DRS1-04 048926-DRS1-05	84.186
Total Drug-Free Schools Grant		
Improving Teacher Quality	048926-TRS1-03 048926-TRS1-04 048926-TRS1-05	84.367
Total Improving Teacher Quality		
Technology Literacy Challenge Grant	048926-TJS1-03 048926-TJS1-04 048926-TJS1-05	84.318
Total Technology Literacy Challenge Grant		
Title VI-R Class Size Reduction	048926-CRS1-02	84.340
Total Department of Education		

UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES
Passed Through Ohio Department of Mental Retardation and
Developmental Disabilities:

State Health Insurance Program	N/A	93.767
Medical Assistance Program	N/A	93.778
Total Department of Health and Human Services		

Totals

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

			1,876	
			359	
			1,427	
	8,197		8,031	
	<u>8,197</u>		<u>11,693</u>	
	3,704		4,391	
	7,596		3,748	
	<u>11,300</u>		<u>8,139</u>	
			514	
	53,469		62,809	
	18,083		11,051	
	<u>71,552</u>		<u>74,374</u>	
			258	
			2,107	
	4,184		3,373	
	<u>4,184</u>		<u>5,738</u>	
			2,831	
	753,423		737,009	
	1,808		1,808	
	<u>18,548</u>		<u>18,548</u>	
	20,356		20,356	
	\$ 951,297	\$ 60,601	\$ 934,883	\$ 60,601

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

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton-Carroll-Salem Local School District, Ottawa County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2006, wherein we noted the District ceased to report using generally accepted accounting principles and reported on the modified cash basis. 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 opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 9, 2006, 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

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

objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated June 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

June 9, 2006



**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**

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

To the Board of Education:

Compliance

We have audited the compliance of Benton-Carroll-Salem Local School District, Ottawa County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Benton-Carroll-Salem Local School District, Ottawa County, complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005.

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, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 9, 2006

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

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster Special Education Grants to States (IDEA Part B) (CFDA #84.027) Pre-School Grant (CFDA #84.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.
Benton-Carroll-Salem Local School District

Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Client Response:

Due to the financial condition of our school district and the failure of four levies in the past two years, we did not file the traditional GAAP reports for fiscal year 2005. In our on going efforts to reduce operating costs, we choose to prepare a GAAP look-a-like statement for this year.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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800-282-0370

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BENTON-CARROLL-SALEM LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 29, 2006**