



**Auditor of State
Betty Montgomery**

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Blanchester Local School District
Clinton County
951 Cherry Street
Blanchester, Ohio 45107

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 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 and the budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

June 19, 2006

**BLANCHESTER LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)**

The discussion and analysis of Blanchester Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$1,631,299 which represents a 6.1% decrease from 2004.
- General revenues accounted for \$12,005,657 in revenue or 86.5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,869,191 or 13.5% of total revenues of \$13,874,848.
- Total assets of governmental activities decreased by \$1,838,769 as taxes receivable decreased by \$76,703 while cash and other receivables decreased by \$642,412.
- The District had \$15,506,147 in expenses related to governmental activities; \$1,869,191 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,005,657 were also used to provide for these programs.
- As a major fund, the General Fund had \$11,775,789 in revenues and \$11,959,781 in expenditures. The General Fund's balance decreased from \$833,411 to \$656,919. The Classroom Facility Fund had \$14,898 in revenues and \$95,006 in expenditures. The Classroom Facility Fund's balance decreased from \$987,397 to \$907,289. The Debt Service Fund had \$517,917 in revenues and \$483,754 in expenditures. The Debt Service Fund's balance increased from \$325,439 to \$359,602.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

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

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

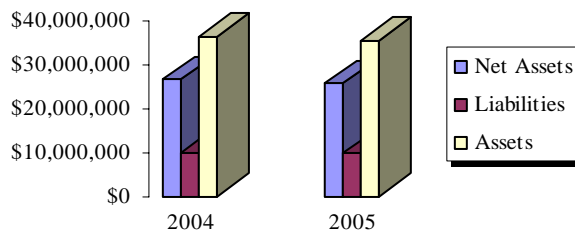
Fiduciary Funds The District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal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

The District as a Whole

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

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

	Governmental Activities	
	2004 Restated	2005
Assets		
Current Assets	\$8,154,129	\$7,443,451
Capital Assets	28,403,433	27,275,342
Total Assets	36,557,562	34,718,793
Liabilities		
Long-Term Liabilities	4,892,530	4,762,235
Other Liabilities	5,085,685	5,008,510
Total Liabilities	9,978,215	9,770,745
Net Assets		
Invested in Capital		
Assets Net of Debt	24,024,433	23,121,342
Restricted	2,255,611	1,692,891
Unrestricted	299,303	133,815
Total Net Assets	\$26,579,347	\$24,948,048



The decrease in net assets is mainly due to the decrease in capital assets. The decrease in capital assets is due to the recognition of \$1,293,244 depreciation expense offset by \$165,153 in equipment additions.

Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$24,948,048.

At year end, capital assets represented 79% of total assets. Capital assets include land, buildings and improvements, and equipment. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2005 were \$23,121,342. These net assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported

net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,692,891 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$133,815 may be used to meet the District's ongoing obligations to the students and creditors.

Table 2 shows the change in net assets for fiscal year 2005 with comparisons to fiscal year 2004.

Table 2
Changes in Net Assets

	Governmental Activities	
	2004 Restated	2005
Revenues		
Program Revenues:		
Charges for Services	\$1,090,324	\$1,119,780
Operating Grants	1,480,876	731,037
Capital Grants	77,797	18,374
General Revenue:		
Property Taxes	3,480,217	3,390,717
Grants and Entitlements	7,192,560	8,352,009
Other	399,307	262,931
Total Revenues	<u>13,721,081</u>	<u>13,874,848</u>
Program Expenses:		
Instruction	6,865,390	8,290,424
Support Services:		
Pupil and Instructional Staff	1,746,324	1,877,301
General and School Administrative, Fiscal and Business	1,582,961	1,549,478
Operations and Maintenance	1,397,891	1,310,122
Pupil Transportation	894,530	1,075,797
Central	19,354	29,824
Operation of Non-Instructional Services	719,776	779,589
Extracurricular Activities	368,904	350,313
Interest and Fiscal Charges	257,362	243,299
Total Expenses	<u>13,852,492</u>	<u>15,506,147</u>
Change in Net Assets	(131,411)	(1,631,299)
Beginning Net Assets	<u>26,710,758</u>	<u>26,579,347</u>
Ending Net Assets	<u>\$26,579,347</u>	<u>\$24,948,048</u>

Total revenues are consistent from 2004 to 2005. The increase in total expenses from 2004 to 2005 was mainly due to the increase in Instructional expenses. Instructional expenses increased due to additional grant funding received in 2005.

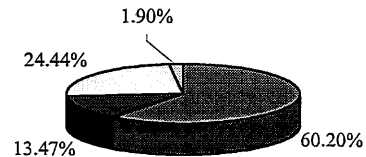
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general, debt service, special revenue and capital projects purposes and grants and entitlements comprised 85% of the District’s revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 24% of revenue for governmental activities for the District in fiscal year 2005.

<u>Revenue Sources</u>	<u>2005</u>	<u>Percent of Total</u>
General Grants	\$8,352,009	60.20%
Program Revenues	1,869,191	13.47%
General Tax Revenues	3,390,717	24.44%
Other Revenues	262,931	1.90%
	<u>\$13,874,848</u>	<u>100.00%</u>



Instruction comprises 53% of governmental program expenses. Support services expenses were 38% of governmental program expenses. Fiscal and business support services decreased due to a decrease in accrued wages. All other expenses including interest was 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004 Restated	2005	2004 Restated	2005
Instruction	\$6,865,390	\$8,290,424	\$5,299,877	\$7,552,060
Support Services:				
Pupil and Instructional Staff	1,746,324	1,877,301	1,644,943	1,559,263
General and School Administrative, Fiscal and Business	1,582,961	1,549,478	1,443,080	1,537,591
Operations and Maintenance	1,397,891	1,310,122	1,394,935	1,305,793
Pupil Transportation	894,530	1,075,797	876,392	1,057,423
Central	19,354	29,824	12,602	27,739
Operation of Non-Instructional Services	719,776	779,589	(2,383)	148,381
Extracurricular Activities	368,904	350,313	276,687	205,407
Interest and Fiscal Charges	257,362	243,299	257,362	243,299
Total Expenses	<u>\$13,852,492</u>	<u>\$15,506,147</u>	<u>\$11,203,495</u>	<u>\$13,636,956</u>

The District's Funds

The District has three major governmental funds: the General Fund, Debt Service Fund and Classroom Facilities Fund. Assets of the general fund comprised \$5,047,801 (66%), the debt service fund comprised \$832,134 (11%) and the classroom facility fund comprised \$907,289 (12%) of the total \$7,607,077 governmental funds assets.

General Fund: Fund balance at June 30, 2005 was \$656,919 including \$186,221 of unreserved balance. The primary reason for the decrease in fund balance was an increase in expenditures for support services.

Debt Service Fund: Fund balance at June 30, 2005 was \$359,602 including \$322,204 of unreserved balance. The fund balance is consistent from 2004 to 2005.

Classroom Facilities Fund: Fund balance at June 30, 2005 was \$907,289, including \$907,289 of unreserved balance. The primary reasons for the decrease in fund balance is due to increases in expenditures for the building project.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures. For fiscal 2005, the District decreased appropriations by \$1,357,401 from the beginning of the fiscal year to the end of the fiscal year. The primary reason for this decrease is due to the increase in the amount of delinquencies.

For the General Fund, budget basis revenue was \$11,728,543, compared to original budget estimates of \$11,462,895. Of this \$265,648 difference, most was due to overestimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance for the General Fund was \$1,734,616.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$27,275,342 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal 2005 balances compared to fiscal 2004:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2004 Restated</u>	<u>2005</u>
Land	\$474,430	\$474,430
Buildings and Improvements	24,477,531	23,878,799
Equipment	<u>3,451,472</u>	<u>2,922,113</u>
Total Net Capital Assets	<u>\$28,403,433</u>	<u>\$27,275,342</u>

The decrease in capital assets is due to the recognition of \$1,293,244 depreciation expense offset by \$165,153 in equipment additions. This District continues its ongoing commitment to maintaining and improving its capital assets.

See Notes to the Basic Financial Statements for further details on the District's capital assets.

Debt

At June 30, 2005, the District had \$4,154,000 in bonds payable, \$240,000 due within one year. Table 5 summarizes bonds outstanding at year end.

Table 5
Outstanding Debt, at Year End

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2005</u>
General Obligation Bonds:		
State Facilities Construction	\$4,065,000	\$3,885,000
Putman Addition and Junior High Gym	<u>314,000</u>	<u>269,000</u>
Total Outstanding Debt at Year End	<u>\$4,379,000</u>	<u>\$4,154,000</u>

See Notes to the Basic Financial Statements for further details on the District's long-term obligations.

For the Future

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

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

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

Contacting the District’s Financial Management

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

Blanchester Local School District
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$3,375,531
Restricted Cash and Investments	158,855
Receivables:	
Taxes	3,645,618
Accounts	42,014
Interest	17,012
Intergovernmental	186,540
Inventory	17,881
Nondepreciable Capital Assets	474,430
Depreciable Capital Assets, Net	<u>26,800,912</u>
 Total Assets	 <u>34,718,793</u>
Liabilities:	
Accounts Payable	73,344
Accrued Wages and Benefits	1,756,795
Accrued Interest Payable	16,742
Unearned Revenue	3,161,629
Long-Term Liabilities:	
Due Within One Year	304,717
Due In More Than One Year	<u>4,457,518</u>
 Total Liabilities	 <u>9,770,745</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	23,121,342
Restricted for:	
Special Revenue	117,122
Debt Service	370,990
Capital Projects	1,045,924
Set-Aside	158,855
Unrestricted	<u>133,815</u>
 Total Net Assets	 <u>\$24,948,048</u>

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$6,156,035	\$552,937	\$131,099	\$0	(\$5,471,999)
Special	1,446,972	0	47,427	0	(1,399,545)
Vocational	340,044	0	2,901	0	(337,143)
Other	347,373	0	4,000	0	(343,373)
Support Services:					
Pupil	547,570	0	116,463	0	(431,107)
Instructional Staff	1,329,731	0	201,575	0	(1,128,156)
General Administration	35,979	0	0	0	(35,979)
School Administration	1,191,615	5,943	(476)	0	(1,186,148)
Fiscal	314,817	0	6,420	0	(308,397)
Business	7,067	0	0	0	(7,067)
Operations and Maintenance	1,310,122	4,329	0	0	(1,305,793)
Pupil Transportation	1,075,797	0	0	18,374	(1,057,423)
Central	29,824	0	2,085	0	(27,739)
Operation of Non-Instructional Services	779,589	411,665	219,543	0	(148,381)
Extracurricular Activities	350,313	144,906	0	0	(205,407)
Interest and Fiscal Charges	243,299	0	0	0	(243,299)
Total Governmental Activities	\$15,506,147	\$1,119,780	\$731,037	\$18,374	(\$13,636,956)

General Revenues:	
Property Taxes Levied for:	
General Purposes	2,760,858
Special Revenue Purposes	58,445
Debt Service Purposes	472,260
Capital Projects Purposes	99,154
Grants and Entitlements not Restricted to Specific Programs	8,352,009
Unrestricted Contributions	5,947
Investment Earnings	100,829
Other Revenues	156,155
Total General Revenues	12,005,657
Change in Net Assets	(1,631,299)
Net Assets Beginning of Year (restated)	26,579,347
Net Assets End of Year	\$24,948,048

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Classroom Facility	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$1,706,986	\$905,292	\$322,204	\$441,049	\$3,375,531
Restricted Cash and Investments	158,855	0	0	0	158,855
Receivables:					
Taxes	2,965,689	0	509,930	169,999	3,645,618
Accounts	38,813	0	0	3,201	42,014
Interest	14,995	1,997	0	20	17,012
Intergovernmental	0	0	0	186,540	186,540
Interfund	162,463	0	0	1,163	163,626
Inventory	0	0	0	17,881	17,881
Total Assets	5,047,801	907,289	832,134	819,853	7,607,077
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	38,698	0	0	34,646	73,344
Accrued Wages and Benefits	1,552,185	0	0	204,610	1,756,795
Compensated Absences	42,040	0	0	0	42,040
Interfund Payable	0	0	0	163,626	163,626
Deferred Revenue	2,757,959	0	472,532	258,291	3,488,782
Total Liabilities	4,390,882	0	472,532	661,173	5,524,587
Fund Balances:					
Reserved for Encumbrances	104,113	0	0	73,685	177,798
Reserved for Inventory	0	0	0	17,881	17,881
Reserved for Property Tax Advances	207,730	0	37,398	12,218	257,346
Reserved for Set-Aside	158,855	0	0	0	158,855
Unreserved, Undesignated, Reported in:					
General Fund	186,221	0	0	0	186,221
Special Revenue Funds	0	0	0	(47,017)	(47,017)
Debt Service Funds	0	0	322,204	0	322,204
Capital Projects Funds	0	907,289	0	101,913	1,009,202
Total Fund Balances	656,919	907,289	359,602	158,680	2,082,490
Total Liabilities and Fund Balances	\$5,047,801	\$907,289	\$832,134	\$819,853	\$7,607,077

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balance		\$2,082,490
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,275,342
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	226,643	
Intergovernmental	<u>100,510</u>	
		327,153
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(16,742)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(566,195)</u>	
		(566,195)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(4,154,000)</u>
Net Assets of Governmental Activities		<u>\$24,948,048</u>

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Classroom Facility	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$2,727,285	\$0	\$468,126	\$155,975	\$3,351,386
Tuition and Fees	552,937	0	0	47,480	600,417
Investment Earnings	85,574	14,898	0	357	100,829
Intergovernmental	8,314,896	0	49,791	1,068,502	9,433,189
Extracurricular Activities	0	0	0	103,369	103,369
Charges for Services	0	0	0	411,665	411,665
Other Revenues	95,097	0	0	63,834	158,931
Total Revenues	11,775,789	14,898	517,917	1,851,182	14,159,786
Expenditures:					
Current:					
Instruction:					
Regular	4,956,615	0	0	368,731	5,325,346
Special	1,100,378	0	0	24,756	1,125,134
Vocational	333,187	0	0	6,857	340,044
Other	346,847	0	0	526	347,373
Support Services:					
Pupil	478,294	0	0	62,777	541,071
Instructional Staff	1,006,545	0	0	323,186	1,329,731
General Administration	35,979	0	0	0	35,979
School Administration	1,064,272	0	0	87,378	1,151,650
Fiscal	298,541	0	11,510	3,827	313,878
Business	7,067	0	0	0	7,067
Operations and Maintenance	1,233,963	0	0	60,141	1,294,104
Pupil Transportation	834,819	0	0	0	834,819
Central	26,684	0	0	3,140	29,824
Operation of Non-Instructional Services	6,370	0	0	729,103	735,473
Extracurricular Activities	205,753	0	0	116,237	321,990
Capital Outlay	24,467	95,006	0	225,885	345,358
Debt Service:					
Principal Retirement	0	0	225,000	0	225,000
Interest and Fiscal Charges	0	0	247,244	0	247,244
Total Expenditures	11,959,781	95,006	483,754	2,012,544	14,551,085
Excess of Revenues Over (Under) Expenditures	(183,992)	(80,108)	34,163	(161,362)	(391,299)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	7,500	0	0	0	7,500
Transfers In	0	0	0	9,203	9,203
Transfers (Out)	0	0	0	(9,203)	(9,203)
Total Other Financing Sources (Uses)	7,500	0	0	0	7,500
Net Change in Fund Balance	(176,492)	(80,108)	34,163	(161,362)	(383,799)
Fund Balance Beginning of Year (restated)	833,411	987,397	325,439	320,042	2,466,289
Fund Balance End of Year	\$656,919	\$907,289	\$359,602	\$158,680	\$2,082,490

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance - Total Governmental Funds (383,799)

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

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

Capital assets used in governmental activities	165,153	
Depreciation Expense	<u>(1,293,244)</u>	(1,128,091)

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

Delinquent Property Taxes	39,332	
Intergovernmental	<u>(331,770)</u>	(292,438)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 225,000

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 3,945

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

Compensated Absences	<u>(55,916)</u>	<u>(55,916)</u>
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Change in Net Assets of Governmental Activities (\$1,631,299)

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$264,196	\$44,819
Receivables:		
Interest	1,133	0
Total Assets	265,329	\$44,819
Liabilities:		
Accounts Payable	0	2,914
Other Liabilities	0	41,905
Total Liabilities	0	\$44,819
Net Assets:		
Held in Trust	265,329	
Total Net Assets	\$265,329	

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
Additions:	
Investment Earnings	\$9,777
Other	300
Total Additions	<u>10,077</u>
Deductions:	
Other	<u>15,765</u>
Total Deductions	<u>15,765</u>
Change in Net Assets	(5,688)
Net Assets Beginning of Year	<u>271,017</u>
Net Assets End of Year	<u>\$265,329</u>

See accompanying notes to the Basic Financial Statements.

BLANCHESTER LOCAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

1. DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected, five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This board controls the District's four instructional and support facilities staffed by 106 classified, 119 certified and six administrative employees to provide service to 1,697 students and other community members.

REPORTING ENTITY

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

MEASUREMENT FOCUS

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

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

Governmental Funds

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the payment of long-term obligations from governmental resources when the District is obligated in some manner.

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

Fiduciary Funds

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

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

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

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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

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

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Interest revenue credited to the general fund during fiscal year 2005 amounted to \$85,574, which includes \$20,465 assigned from other District funds.

INVENTORY

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

CAPITAL ASSETS

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

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

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

COMPENSATED ABSENCES

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

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

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

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

<u>Vacation</u> How Earned	<u>Certified</u> Not Eligible	<u>Administrators</u> Per Contract	<u>Non-Certificated</u> 10-20 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	Not Applicable	Not Applicable
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Not Applicable	Not Applicable
<u>Sick Leave</u> How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	215 days	Per Contract	210 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

NET ASSETS

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

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

INTERFUND ASSETS/LIABILITIES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables" and "interfund payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

INTERFUND ACTIVITY

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities.

FUND EQUITY

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

ESTIMATES

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

RESTRICTED ASSETS

Restricted assets in the general fund represent equity in pooled cash and investments set aside to establish a state mandated reserve for textbook and budget reserves. A corresponding fund balance reserve has also been established.

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).

- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, \$51,734 of the District's bank balance of \$152,740 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Federal Agency Notes	\$1,438,762	2.28
Federal Agency Bonds	75,000	2.65
Money Market Accounts	<u>2,227,670</u>	0.00
Total Fair Value	<u>\$3,741,432</u>	
Portfolio Weighted Average Maturity		0.93

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest quality rating issued by nationally recognized statistical rating organizations. The District’s investments in Federal Agency Notes and Bonds were rated AAA by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities.

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. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

4. PROPERTY TAXES

Real property taxes collected in 2005 were levied in April on the assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

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

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most business and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2005. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$207,730 for General Fund, \$37,398 for Debt Service, \$4,600 for Special Revenue and \$7,618 for Capital Projects, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2005 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$107,067,490
Public Utility Personal	6,199,500
Tangible Personal Property	<u>21,115,300</u>
Total	<u>\$134,382,290</u>

5. RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), interest, intergovernmental grants and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Beginning Balance	Additions	Deductions	Ending Balance
Government Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	<u>\$474,430</u>	<u>\$0</u>	<u>\$0</u>	<u>\$474,430</u>
Total Capital Assets, not being depreciated	<u>474,430</u>	<u>0</u>	<u>0</u>	<u>474,430</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	30,034,932	159,864	0	30,194,796
Equipment	<u>7,119,289</u>	<u>5,289</u>	<u>30,000</u>	<u>7,094,578</u>
Total Capital Assets, being depreciated	<u>37,154,221</u>	<u>165,153</u>	<u>30,000</u>	<u>37,289,374</u>
Totals at Historical Cost	<u>37,628,651</u>	<u>165,153</u>	<u>30,000</u>	<u>37,763,804</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,557,401	758,596	0	6,315,997
Equipment	<u>3,667,817</u>	<u>534,648</u>	<u>30,000</u>	<u>4,172,465</u>
Total Accumulated Depreciation	<u>9,225,218</u>	<u>1,293,244</u>	<u>30,000</u>	<u>10,488,462</u>
Governmental Activities Capital Assets, Net	<u>\$28,403,433</u>	<u>(\$1,128,091)</u>	<u>\$0</u>	<u>\$27,275,342</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$783,871
Special	321,838
Support Services:	
Pupils	3,147
School Administration	31,125
Operations and Maintenance	10,091
Pupil Transportation	81,273
Operation of Non-Instructional Services	39,348
Extracurricular Activities	<u>22,551</u>
Total Depreciation Expense	<u>\$1,293,244</u>

7. LONG-TERM LIABILITIES

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
General Obligation Bonds:						
State Facilities Construction 2000 5.669%	12/01/22	\$4,065,000	\$ 0	\$180,000	\$3,885,000	\$195,000
Putnam Addition and Junior High Gym 1989 7.75%	12/01/10	<u>314,000</u>	<u>0</u>	<u>45,000</u>	<u>269,000</u>	<u>45,000</u>
Total General Obligation Bonds		4,379,000	0	225,000	4,154,000	240,000
Compensated Absences		<u>513,530</u>	<u>115,187</u>	<u>20,482</u>	<u>608,235</u>	<u>64,717</u>
Total Governmental Activities Long-Term Liabilities		<u>\$4,892,530</u>	<u>\$115,187</u>	<u>\$245,482</u>	<u>\$4,762,235</u>	<u>\$304,717</u>

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

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

<u>Fiscal Year</u> <u>Ending June 30.</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$240,000	\$234,753	\$474,753
2007	265,000	221,146	486,146
2008	155,000	209,546	364,546
2009	160,000	200,461	360,461
2010	180,000	190,656	370,656
2011-2015	924,000	787,837	1,711,837
2016-2020	1,240,000	446,515	1,686,515
2021-2024	<u>990,000</u>	<u>80,146</u>	<u>1,070,146</u>
Totals	<u>\$4,154,000</u>	<u>\$2,371,060</u>	<u>\$6,525,060</u>

8. DEFINED BENEFIT PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$260,400, \$254,196, and \$244,728 respectively; 51% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003. \$133,152 represents the unpaid contribution for fiscal year 2005.

STATE TEACHERS RETIREMENT SYSTEM

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$784,308, \$805,044, and \$709,464 respectively; 86% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003. \$113,676 represents the unpaid contribution for fiscal year 2005.

9. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund for which payments for health care benefits are paid. For the District, this amount equaled \$56,022 during the 2005 fiscal year. At June 30, 2005, the balance in the fund was \$3.3 billion. As of June 30, 2005, eligible benefit recipients totaled 115,395. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000.

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

For the fiscal year, 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 the fiscal year, the minimum pay has been established at \$27,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$63,798 during the 2005 fiscal year. The number of participants currently receiving health care benefits is approximately 58,123. For the fiscal year ended June 30, 2005, net health care costs paid by SERS were \$178,221,113. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million.

10. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2005.

LITIGATION

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

11. JOINTLY GOVERNED ORGANIZATIONS

The Miami Valley Educational Computer Association (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Norma Stewart, Director, 330 East Enon Road, Yellow Springs, Ohio 45387.

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

12. RELATED ORGANIZATION

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

13. RISK MANAGEMENT

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

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

14. COMPLIANCE AND ACCOUNTABILITY

Compliance

Ohio Revised Code Section 5705.41B states that no subdivision or taxing unit is to expend money unless it has been appropriated. At year end, the District had disbursements exceeding appropriations in the following fund:

General	\$119,613
---------	-----------

Accountability

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

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Alternative Schools	\$27,245
Special Education	54,203
Title I	19,929
Title V	10,576
Food Service	113,627

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

15. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2005, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	\$75,614	\$ 0	\$117,965
Current Year Set-aside Requirement	245,260	245,260	0
Qualified Disbursements	(279,984)	(186,024)	0
Current Year Offsets	<u>0</u>	<u>(19,525,274)</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2005	<u>\$40,890</u>	<u>(\$19,466,038)</u>	<u>\$117,965</u>
 Restricted Cash as of June 30, 2005	 <u>\$158,855</u>		

Offset credits for capital activity during the year exceeded the amount required for the set-aside, resulting in offset credits of \$19,466,038 available for carryover to offset capital reserve requirements of future years.

16. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$162,463	\$0	\$0	\$0
Nonmajor Funds	<u>1,163</u>	<u>163,626</u>	<u>9,203</u>	<u>9,203</u>
Total All Funds	<u>\$163,626</u>	<u>\$163,626</u>	<u>\$9,203</u>	<u>\$9,203</u>

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

17. CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For 2005, the District has implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the General and Other Governmental Funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Other Governmental Funds</u>
Fund Balances, June 30, 2004	\$912,511	\$325,773
GASB Technical Bulletin No. 2004-2	<u>(79,100)</u>	<u>(5,731)</u>
Restated Fund Balance, June 30, 2004	<u>\$833,411</u>	<u>\$320,042</u>

A prior period adjustment is required to restate the capital assets at June 30, 2004 due to an overstatement of depreciation in the prior year. This restatement had the following effect on net assets at June 30, 2004:

	<u>Governmental Activities</u>
Net assets as previously reported	\$25,460,321
Restatement for capital assets	<u>1,119,026</u>
Net assets, restated at July 1, 2004	<u>\$26,579,347</u>

Blanchester Local School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$2,673,641	\$2,735,601	\$2,734,215	(\$1,386)
Tuition and Fees	540,678	553,208	552,928	(280)
Investment Earnings	69,015	70,615	70,579	(36)
Intergovernmental	8,130,686	8,319,112	8,314,896	(4,216)
Other Revenues	48,875	50,007	49,982	(25)
Total Revenues	11,462,895	11,728,543	11,722,600	(5,943)
Expenditures:				
Current:				
Instruction:				
Regular	5,467,159	4,908,624	4,957,842	(49,218)
Special	1,212,302	1,088,451	1,099,365	(10,914)
Vocational	365,398	328,069	331,358	(3,289)
Other	401,579	360,553	364,168	(3,615)
Support Services:				
Pupil	523,029	469,595	474,304	(4,709)
Instructional Staff	1,114,638	1,000,764	1,010,799	(10,035)
General Administration	60,440	54,265	54,809	(544)
School Administration	1,152,614	1,034,861	1,045,237	(10,376)
Fiscal	338,605	304,013	307,061	(3,048)
Business	8,695	7,807	7,885	(78)
Operations and Maintenance	1,389,616	1,247,650	1,260,160	(12,510)
Pupil Transportation	909,890	816,934	825,125	(8,191)
Central	30,114	27,038	27,309	(271)
Operation of Non-Instructional Services	6,694	6,010	6,070	(60)
Extracurricular Activities	223,903	201,028	203,044	(2,016)
Capital Outlay	28,414	25,511	25,767	(256)
Total Expenditures	13,233,090	11,881,173	12,000,303	(119,130)
Excess of Revenues Over (Under) Expenditures	(1,770,195)	(152,630)	(277,703)	(125,073)
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	7,334	7,504	7,500	(4)
Advances (Out)	(53,684)	(48,200)	(48,683)	(483)
Total Other Financing Sources (Uses)	(46,350)	(40,696)	(41,183)	(487)
Net Change in Fund Balance	(1,816,545)	(193,326)	(318,886)	(125,560)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,053,502	2,053,502	2,053,502	0
Fund Balance End of Year	\$236,957	\$1,860,176	\$1,734,616	(\$125,560)

See accompanying notes to the required supplementary information.

BLANCHESTER LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2005

1. BUDGETARY PROCESS

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

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

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

Tax Budget

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

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

Appropriations

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

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

Encumbrances

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

Lapsing of Appropriations

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

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

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	(\$176,492)
Net Adjustment for Revenue Accruals	(53,189)
Net Adjustment for Expenditure Accruals	37,312
Encumbrances	<u>(126,517)</u>
Budget Basis	<u>(\$318,886)</u>

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**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	None	10.550	\$0	\$34,696	\$0	\$34,696
National School Breakfast Program	05-PU-2005 05-PU-2004	10.553	25,789 7,595	----- -----	25,789 7,595	----- -----
National School Lunch	LLP4-2005 LLP4-2004	10.555	120,915 41,029	----- -----	120,915 41,029	----- -----
Total U.S. Department of Agriculture			195,328	34,696	195,328	34,696
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
<i>Education Consolidation and Improvement Act</i>						
Title I - FY 05	C1-S1-05	84.010	170,348	-----	168,898	-----
Title I - FY 04	C1-S1-04		35,361	-----	40,832	-----
<i>Total Title I</i>			205,709	0	209,730	0
<i>Special Education Cluster:</i>						
<i>Special Education Grants to States</i>						
IDEA Part B - FY05	6BSF-2005	84.027	297,745	-----	277,959	-----
IDEA Part B - FY04	6BSF-2004		4,154	-----	2,747	-----
Access Continuation Grant	6BSD-2004-P		13,848	-----	21,924	-----
Access Grant	6BSD-2005		17,604	-----	16,858	-----
Educational Handicapped Preschool Preschool Subsidy - FY 05	PG-S1-2005	84.173	7,594	-----	8,367	-----
<i>Total Special Education Cluster</i>			340,945	0	327,855	0
<i>Drug Free Schools</i>						
Drug Free Education - Subsidy - FY 05	DR-S1-05	84.186	7,084	-----	8,852	-----
Drug Free Education - Subsidy - FY 04	DR-S1-04		2,201	-----	-----	-----
<i>Total Drug Free School Grants</i>			9,285	0	8,852	0
<i>Innovative Educational Program Strategies</i>						
Innovative Ed - FY 05	C2-S1-05	84.298	3,576	-----	7,153	-----
Innovative Ed - FY 04	C2-S1-04		8,597	-----	37	-----
<i>Total Innovative Ed</i>			12,173	0	7,190	0
<i>Additional Programs:</i>						
Educational Technology - FY 05	TJ-S1-05	84.318	5,839	-----	4,745	-----
Educational Technology - FY 04	TJ-S1-04		3,091	-----	3,500	-----
Assistive Technology	AT-S	84.352	-----	-----	22	-----
Improving Teacher Quality - FY 05	TR-S1-05	84.367	70,569	-----	67,214	-----
Improving Teacher Quality - FY 04	TR-S1-04		1,243	-----	10,260	-----
<i>Total Additional Programs</i>			80,742	0	85,741	0
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education Basic Grants to States Career Education	N/A	84.048	2,942	-----	2,942	-----
Total Department of Education			651,796	0	642,310	0
U.S. DEPARTMENT OF HUMAN SERVICES						
<i>Passed through Ohio Department of MRDD:</i>						
Medical Assistance Program/CAFS	N/A	93.778	683	-----	0	-----
Total Department of Human Services			683	0	0	0
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$847,807	\$34,696	\$837,638	\$34,696

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

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

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

Blanchester Local School District
Clinton County
951 Cherry Street
Blanchester, Ohio 45107

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio (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 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 19, 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 objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

June 19, 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

Blanchester Local School District
Clinton County
951 Cherry Street
Wilmington, Ohio 45107

To the Board of Education:

Compliance

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

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

In our opinion, the Blanchester Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 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. However, we noted other matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated June 19, 2006.

We intend this report solely for the information and use of the District's audit committee, elected officials management, 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 19, 2006

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 25, 2006**