

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
*(AUDITED)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007***

**NICOLE SPRIGGS, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Berlin Milan Local School District  
140 South Main Street  
Milan, Ohio 44846

We have reviewed the *Independent Auditor's Report* of the Berlin Milan Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Berlin Milan Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 5, 2008

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**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds .....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund .....	21
Notes to the Basic Financial Statements.....	22 - 45
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards .....	46
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	47 - 48
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	49 - 50
Schedule of Findings <i>OMB Circular A-133 § .505</i> .....	51 - 52

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education  
Berlin-Milan Local School District  
140 South Main Street  
Milan, Ohio 44846-9770

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Berlin-Milan Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Berlin-Milan Local School 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal 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 December 20, 2007, on our consideration of Berlin-Milan Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Independent Auditor's Report  
Berlin-Milan Local School District  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berlin-Milan Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Berlin-Milan Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 20, 2007



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Berlin Milan Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$1,130,920 which represents a 17.31% increase from 2006.
- General revenues accounted for \$14,032,014 in revenue or 83.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,708,147 or 16.18% of total revenues of \$16,740,161.
- The District had \$15,609,241 in expenses related to governmental activities; only \$2,708,147 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,032,014 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$14,022,442 in revenues and other financing sources and \$13,316,096 in expenditures. During fiscal 2007, the general fund's fund balance increased \$673,967 from \$2,117,521 to \$2,791,488.
- The District's permanent improvement fund had \$699,691 in revenues and \$714,895 in expenditures. During fiscal 2007, the permanent improvement fund's fund balance decreased \$15,204 from \$892,207 to \$877,003.

**Using the Basic Financial Statements**

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

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-45 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2007 and 2006.

	<b>Net Assets</b>	
	Governmental Activities 2007	Governmental Activities 2006
<b><u>Assets</u></b>		
Current assets	\$ 13,104,089	\$ 11,451,490
Capital assets, net	<u>3,843,608</u>	<u>3,514,265</u>
Total assets	<u>16,947,697</u>	<u>14,965,755</u>
<b><u>Liabilities</u></b>		
Current liabilities	8,456,554	7,664,474
Long-term liabilities	<u>826,317</u>	<u>767,375</u>
Total liabilities	<u>9,282,871</u>	<u>8,431,849</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,781,568	3,392,856
Restricted	1,024,206	1,096,832
Unrestricted	<u>2,859,052</u>	<u>2,044,218</u>
Total net assets	<u>\$ 7,664,826</u>	<u>\$ 6,533,906</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$7,664,826. At year-end, unrestricted net assets were \$2,859,052.

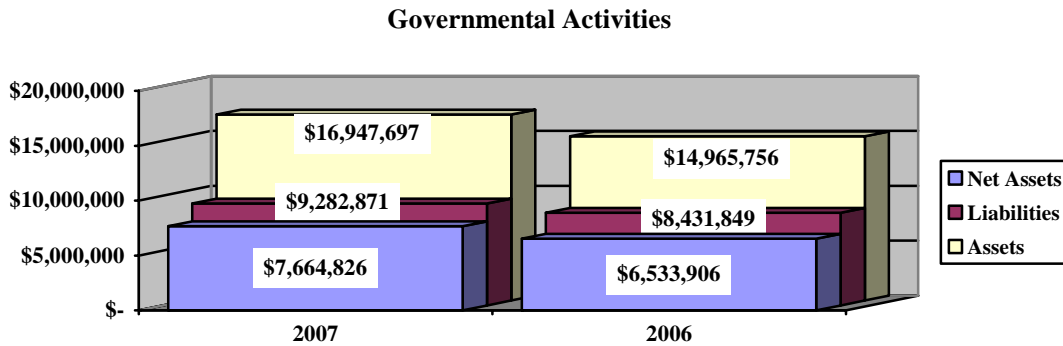
**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

At year-end, capital assets represented 22.68% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,781,568. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,024,206, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,859,052 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's governmental activities assets, liabilities and net assets for June 30, 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 and 2006. Certain revenue amounts for 2006 have been reclassified to conform to 2007 presentation.

	<b>Change in Net Assets</b>	
	Governmental Activities 2007	Governmental Activities 2006
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,037,549	\$ 934,425
Operating grants and contributions	1,647,298	1,596,940
Capital grants and contributions	23,300	-
General revenues:		
Property taxes	7,100,170	6,971,497
Grants and entitlements	6,635,356	6,272,502
Investment earnings	274,198	160,458
Other	22,290	56,877
Total revenues	<u>16,740,161</u>	<u>15,992,699</u>

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Change in Net Assets**

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 6,822,448	\$ 6,361,063
Special	2,253,351	2,097,589
Vocational	64,638	92,885
Other	453,773	337,105
Support services:		
Pupil	883,002	784,891
Instructional staff	328,617	348,690
Board of education	32,778	27,333
Administration	1,206,015	1,240,162
Fiscal	278,120	269,130
Operations and maintenance	1,193,203	1,119,459
Pupil transportation	775,891	758,365
Central	160,040	154,904
Food service operations	540,665	563,769
Extracurricular activities	611,449	667,708
Interest and fiscal charges	<u>5,251</u>	<u>8,278</u>
Total expenses	<u>15,609,241</u>	<u>14,831,331</u>
Change in net assets	1,130,920	1,161,368
Net assets at beginning of year	<u>6,533,906</u>	<u>5,372,538</u>
Net assets at end of year	<u>\$ 7,664,826</u>	<u>\$ 6,533,906</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$1,130,920. Total governmental expenses of \$15,609,241 were offset by program revenues of \$2,708,147 and general revenues of \$14,032,014. Program revenues supported 17.35% of the total governmental expenses.

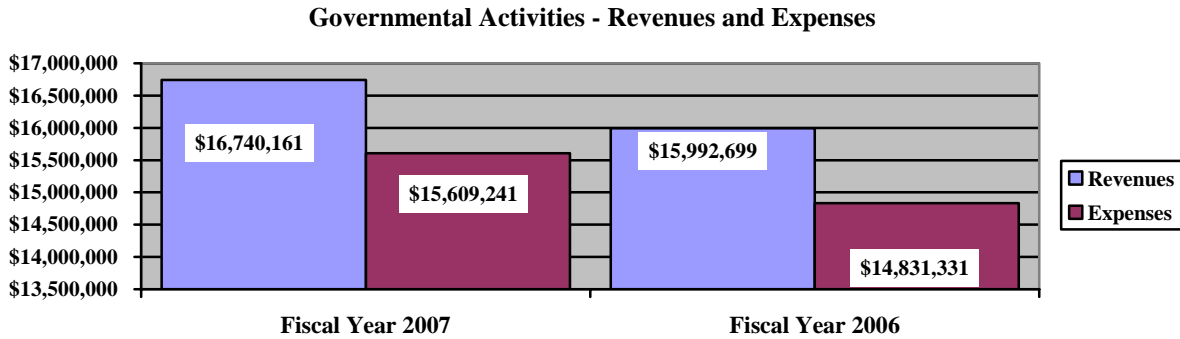
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.05% of total governmental revenue. Real estate property is reappraised every six years

The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,594,210 or 61.46% of total governmental expenses for fiscal 2007.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The net cost of services for instruction - special for 2006 has been restated to conform to 2007 presentation.

	<b>Governmental Activities</b>			
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
<b>Program expenses</b>				
Instruction:				
Regular	\$ 6,822,448	\$ 6,263,381	\$ 6,361,063	\$ 5,936,748
Special	2,253,351	1,341,053	2,097,589	1,201,889
Vocational	64,638	54,448	92,885	92,885
Other	453,773	453,773	337,105	326,896
Support services:				
Pupil	883,002	567,771	784,891	502,252
Instructional staff	328,617	295,355	348,690	296,387
Board of education	32,778	32,778	27,333	27,333
Administration	1,206,015	1,193,228	1,240,162	1,224,021
Fiscal	278,120	272,425	269,130	263,232
Operations and maintenance	1,193,203	1,192,603	1,119,459	1,113,624
Pupil transportation	775,891	715,649	758,365	757,859
Central	160,040	153,178	154,904	153,043
Food service operations	540,665	(35,738)	563,469	(45,565)
Extracurricular activities	611,449	395,939	667,708	441,084
Interest and fiscal charges	5,251	5,251	8,278	8,278
<b>Total expenses</b>	<u>\$ 15,609,241</u>	<u>\$ 12,901,094</u>	<u>\$ 14,831,031</u>	<u>\$ 12,299,966</u>

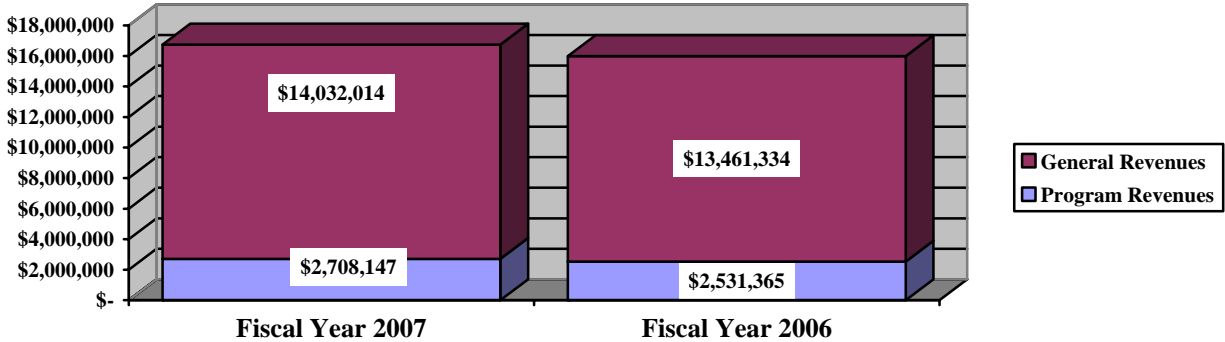
The dependence upon tax and other general revenues for governmental activities is apparent, 84.56% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.65%.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006. Amounts for 2006 have been reclassified to conform to 2007 presentation.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,953,753, which is higher than last year's total of \$3,249,573. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance June 30, 2007</u>	<u>Fund Balance June 30, 2006</u>	<u>Increase/ (Decrease)</u>
General	\$ 2,791,488	\$ 2,117,521	\$ 673,967
Permanent Improvement	877,003	892,207	(15,204)
Other Governmental	<u>285,262</u>	<u>239,845</u>	<u>45,417</u>
Total	<u>\$ 3,953,753</u>	<u>\$ 3,249,573</u>	<u>\$ 704,180</u>

An analysis of the general fund revenues and expenditures is provided in the section below. The increase in the fund balances of the other governmental funds is primarily due to a fund balance increase of \$35,483 in the food service fund. The increase was a result of charges for services and federal grant revenues continuing to exceed food service operation expenditures in the food service fund.

**General Fund**

The District's general fund balance increased \$673,967. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>	<u>2006</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,281,107	\$ 6,183,184	1.58 %
Tuition	282,605	175,010	61.48 %
Earnings on investments	263,587	156,658	68.26 %
Intergovernmental	7,112,277	6,687,666	6.35 %
Other revenues	<u>74,122</u>	<u>96,519</u>	(23.20) %
 Total	 <u>\$ 14,013,698</u>	 <u>\$ 13,299,037</u>	 5.37 %
<b><u>Expenditures</u></b>			
Instruction	\$ 8,616,002	\$ 8,186,792	5.24 %
Support services	4,261,538	4,115,204	3.56 %
Extracurricular activities	373,724	387,417	(3.53) %
Debt service	<u>64,832</u>	<u>64,832</u>	- %
 Total	 <u>\$ 13,316,096</u>	 <u>\$ 12,754,245</u>	 4.41 %

Tuition revenue increased as a result of the District's continued participation in open enrollment. Interest revenues increased due to rising interest rates on the District's investments during the fiscal year. Other revenues, which are made up of rentals, contributions and donations, services provided to other entities, classroom materials and supplies and miscellaneous revenues decreased primarily due to decreasing revenues from classroom materials and supplies and local sources. Instruction and support service expenditures increased as a result of increased student enrollment and annual inflation of wages and benefits.

***Permanent Improvement Fund***

The District's permanent improvement fund balance decreased \$15,204. The decrease in fund balance can be primarily attributed to increasing expenditures, especially in the areas of facilities acquisition and construction and regular instruction, while revenues remained relatively unchanged.

***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 2007, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$13,811,507, which is less than the original budgeted revenues estimate of \$13,866,112. Actual revenues and other financing sources for fiscal 2007 was \$14,231,109. This represents a \$419,602 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,113,629 were increased to \$14,292,299 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$13,523,217, which was \$769,082 less than the final budget appropriations.



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2007, the District had \$3,843,608 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 469,195	\$ 469,195
Land improvements	201,054	156,343
Building and improvements	2,278,654	2,152,606
Furniture and equipment	437,507	394,937
Vehicles	<u>457,198</u>	<u>341,184</u>
<b>Total</b>	<b><u>\$ 3,843,608</u></b>	<b><u>\$ 3,514,265</u></b>

Total additions to capital assets for 2007 were \$677,297 and total disposals were \$19,542 (net of accumulated depreciation). The District recorded \$328,412 in depreciation expense for fiscal 2007.

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

*Debt Administration*

At June 30, 2007, the District had \$62,040 in energy conservation notes outstanding. The entire amount is due within one year. The following table summarizes the notes outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
Energy conservation notes	<u>\$ 62,040</u>	<u>\$ 121,409</u>
<b>Total</b>	<b><u>\$ 62,040</u></b>	<b><u>\$ 121,409</u></b>

The energy conservation notes were received in 1998. These notes are scheduled to mature in fiscal year 2008 and bear an interest rate of 4.50%. Payment of principal and interest on the energy conservation note is being made from the general fund.

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Current Financial Related Activities**

Consistent with many school districts in Ohio, the Berlin-Milan Local School District is faced with the challenge of maintaining the highest standards of education for our students and services to our community, while striving to remain financially solvent. The District relies heavily upon real estate taxes, personal property taxes, and state funding as the major sources of revenue.

In the area of real estate taxes, both Erie and Huron counties underwent reappraisal in calendar year 2006 (collected in calendar year 2007). With this reappraisal, the effective tax rate for residential and agricultural property in the District reached the 20 mil floor. The District does not anticipate a significant growth in state revenue in the foreseeable future. With the recent elimination of the tangible personal property tax over the next several years, the concern is that this funding change will have a profound negative financial impact on the District and ultimately the District's residential taxpayers.

The District currently has an adequate cash balance to meet operating expenses for the next several years. However, in fiscal year 2009 our projections show operating expenses exceeding operating revenue and that trend is projected to continue over the remainder of the District's five-year forecast. The current cash balance is not sufficient to sustain the District throughout the present five-year forecast. The Board of Education will continue to monitor these projections, updating them with pertinent information as it becomes available, and utilize these projections in the decision making process.

The Berlin-Milan community values the education its students receive and takes pride in its schools. The District has received an Excellent rating by the Ohio Department of Education for the past three years. The Board, Administration, and Staff are committed to working with the community in order to maintain this excellent level of education in a safe, effective, and efficient manner.

**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 Ms. Nicole Spriggs, Treasurer, Berlin-Milan Local School District, 140 South Main Street, Milan, Ohio 44846-9735.

**BASIC  
FINANCIAL STATEMENTS**

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 5,030,413
Receivables:	
Taxes . . . . .	7,963,974
Accounts . . . . .	3,527
Intergovernmental . . . . .	33,729
Accrued interest . . . . .	19,874
Prepayments . . . . .	15,132
Materials and supplies inventory . . . . .	37,440
Capital assets:	
Land . . . . .	469,195
Depreciable capital assets, net . . . . .	3,374,413
Capital assets, net. . . . .	3,843,608
 Total assets. . . . .	 16,947,697
<b>Liabilities:</b>	
Accounts payable. . . . .	42,290
Accrued wages and benefits . . . . .	1,154,733
Pension obligation payable. . . . .	314,131
Intergovernmental payable . . . . .	85,082
Accrued interest payable . . . . .	222
Unearned revenue . . . . .	6,860,096
Long-term liabilities:	
Due within one year. . . . .	145,728
Due in more than one year . . . . .	680,589
 Total liabilities . . . . .	 9,282,871
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,781,568
Restricted for:	
Capital projects . . . . .	920,726
Locally funded programs . . . . .	14,271
State funded programs . . . . .	33,082
Federally funded programs . . . . .	1,220
Student activities . . . . .	52,047
Other purposes . . . . .	2,860
Unrestricted. . . . .	2,859,052
 Total net assets . . . . .	 \$ 7,664,826

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 6,822,448	\$ 401,159	\$ 146,592	\$ 11,316	\$ (6,263,381)
Special . . . . .	2,253,351	14,122	898,176	-	(1,341,053)
Vocational . . . . .	64,638	-	10,190	-	(54,448)
Other . . . . .	453,773	-	-	-	(453,773)
Support services:					
Pupil . . . . .	883,002	16,087	299,144	-	(567,771)
Instructional staff . . . . .	328,617	2,270	30,992	-	(295,355)
Board of education . . . . .	32,778	-	-	-	(32,778)
Administration . . . . .	1,206,015	2,735	10,052	-	(1,193,228)
Fiscal . . . . .	278,120	-	5,695	-	(272,425)
Operations and maintenance . . . . .	1,193,203	600	-	-	(1,192,603)
Pupil transportation . . . . .	775,891	-	48,258	11,984	(715,649)
Central . . . . .	160,040	-	6,862	-	(153,178)
Food service operations . . . . .	540,665	400,059	176,344	-	35,738
Extracurricular activities . . . . .	611,449	200,517	14,993	-	(395,939)
Interest and fiscal charges . . . . .	5,251	-	-	-	(5,251)
Total governmental activities . . . . .	<u>\$ 15,609,241</u>	<u>\$ 1,037,549</u>	<u>\$ 1,647,298</u>	<u>\$ 23,300</u>	<u>(12,901,094)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					6,493,322
Capital projects . . . . .					606,848
Grants and entitlements not restricted to specific programs . . . . .					6,635,356
Investment earnings . . . . .					274,198
Miscellaneous . . . . .					22,290
Total general revenues . . . . .					<u>14,032,014</u>
Change in net assets . . . . .					1,130,920
<b>Net assets at beginning of year . . . . .</b>					<u>6,533,906</u>
<b>Net assets at end of year . . . . .</b>					<u>\$ 7,664,826</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 3,804,702	\$ 837,939	\$ 387,772	\$ 5,030,413
Receivables:				
Taxes . . . . .	7,331,851	632,123	-	7,963,974
Accounts . . . . .	1,617	-	1,910	3,527
Intergovernmental . . . . .	-	-	33,729	33,729
Accrued interest . . . . .	19,874	-	-	19,874
Interfund loans . . . . .	250	-	-	250
Prepayments . . . . .	14,991	-	141	15,132
Materials and supplies inventory . . . . .	19,777	-	17,663	37,440
	<u>\$ 11,193,062</u>	<u>\$ 1,470,062</u>	<u>\$ 441,215</u>	<u>\$ 13,104,339</u>
<b>Total assets . . . . .</b>				
	<u>\$ 11,193,062</u>	<u>\$ 1,470,062</u>	<u>\$ 441,215</u>	<u>\$ 13,104,339</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 29,184	\$ 8,213	\$ 4,893	\$ 42,290
Accrued wages and benefits . . . . .	1,051,055	-	103,678	1,154,733
Compensated absences payable . . . . .	70,566	-	-	70,566
Pension obligation payable . . . . .	274,666	-	39,465	314,131
Intergovernmental payable . . . . .	77,415	-	7,667	85,082
Interfund loans payable . . . . .	-	-	250	250
Deferred revenue . . . . .	579,715	43,723	-	623,438
Unearned revenue . . . . .	6,318,973	541,123	-	6,860,096
	<u>8,401,574</u>	<u>593,059</u>	<u>155,953</u>	<u>9,150,586</u>
<b>Total liabilities . . . . .</b>				
	<u>8,401,574</u>	<u>593,059</u>	<u>155,953</u>	<u>9,150,586</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	132,009	278,871	33,567	444,447
Reserved for materials and supplies inventory . . . . .	19,777	-	17,663	37,440
Reserved for prepayments . . . . .	14,991	-	141	15,132
Reserved for property tax unavailable for appropriation . . . . .	445,424	47,277	-	492,701
Reserved for unclaimed monies . . . . .	2,860	-	-	2,860
Unreserved, undesignated, reported in:				
General fund . . . . .	2,176,427	-	-	2,176,427
Special revenue funds . . . . .	-	-	233,891	233,891
Capital projects funds . . . . .	-	550,855	-	550,855
	<u>2,791,488</u>	<u>877,003</u>	<u>285,262</u>	<u>3,953,753</u>
<b>Total fund balances . . . . .</b>				
	<u>2,791,488</u>	<u>877,003</u>	<u>285,262</u>	<u>3,953,753</u>
<b>Total liabilities and fund balances . . . . .</b>				
	<u>\$ 11,193,062</u>	<u>\$ 1,470,062</u>	<u>\$ 441,215</u>	<u>\$ 13,104,339</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007

<b>Total governmental fund balances</b>		\$ 3,953,753
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,843,608
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 611,177	
Accrued interest	12,261	
Total		623,438
In the statement of activities interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.		(222)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(693,711)	
Energy conservation notes payable	(62,040)	
Total		(755,751)
<b>Net assets of governmental activities</b>		<u>\$ 7,664,826</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,281,107	\$ 594,795	\$ -	\$ 6,875,902
Tuition. . . . .	282,605	-	58,072	340,677
Charges for services. . . . .	-	-	389,639	389,639
Earnings on investments. . . . .	263,587	-	5,612	269,199
Extracurricular. . . . .	-	-	201,127	201,127
Classroom materials and fees . . . . .	38,315	-	-	38,315
Other local revenues. . . . .	35,807	-	25,813	61,620
Intergovernmental - Intermediate. . . . .	-	-	44,864	44,864
Intergovernmental - State. . . . .	7,112,277	104,896	68,026	7,285,199
Intergovernmental - Federal . . . . .	-	-	1,046,779	1,046,779
Total revenues. . . . .	<u>14,013,698</u>	<u>699,691</u>	<u>1,839,932</u>	<u>16,553,321</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,275,978	157,333	224,836	6,658,147
Special. . . . .	1,823,520	-	415,856	2,239,376
Vocational. . . . .	62,731	-	-	62,731
Other. . . . .	453,773	-	-	453,773
Support services:				
Pupil. . . . .	508,433	-	349,153	857,586
Instructional staff . . . . .	281,189	1,568	35,348	318,105
Board of education . . . . .	32,778	-	-	32,778
Administration. . . . .	1,167,204	-	12,004	1,179,208
Fiscal . . . . .	254,742	13,532	5,758	274,032
Operations and maintenance. . . . .	1,075,871	-	-	1,075,871
Pupil transportation . . . . .	787,057	104,500	1,804	893,361
Central. . . . .	154,264	-	5,730	159,994
Food service operations . . . . .	-	-	538,782	538,782
Extracurricular activities. . . . .	373,724	-	202,985	576,709
Facilities acquisition and construction . . . . .	-	437,962	121	438,083
Debt service:				
Principal retirement . . . . .	59,369	-	-	59,369
Interest and fiscal charges . . . . .	5,463	-	-	5,463
Total expenditures . . . . .	<u>13,316,096</u>	<u>714,895</u>	<u>1,792,377</u>	<u>15,823,368</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>697,602</u>	<u>(15,204)</u>	<u>47,555</u>	<u>729,953</u>
<b>Other financing sources:</b>				
Sale of capital assets . . . . .	8,744	-	-	8,744
Total other financing sources. . . . .	<u>8,744</u>	<u>-</u>	<u>-</u>	<u>8,744</u>
Net change in fund balances . . . . .	706,346	(15,204)	47,555	738,697
<b>Fund balances at beginning of year. . . . .</b>	2,117,521	892,207	239,845	3,249,573
<b>Decrease in reserve for inventory . . . . .</b>	(32,379)	-	(2,138)	(34,517)
<b>Fund balances at end of year. . . . .</b>	<u>\$ 2,791,488</u>	<u>\$ 877,003</u>	<u>\$ 285,262</u>	<u>\$ 3,953,753</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Net change in fund balances - total governmental funds</b>	\$	738,697
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays 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 by which capital outlays exceed depreciation expense in the current period.</p>		
Capital asset additions	\$ 677,297	
Current year depreciation	<u>(328,412)</u>	
Total		348,885
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(19,542)
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		(34,517)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	224,268	
Intergovernmental revenue	(47,029)	
Accounts receivable	(1,010)	
Accrued interest	<u>10,611</u>	
Total		186,840
<p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		59,369
<p>Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		212
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(149,024)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>1,130,920</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,281,311	\$ 6,329,202	\$ 6,446,654	\$ 117,452
Tuition. . . . .	293,493	179,500	301,219	121,719
Earnings on investments. . . . .	266,541	203,600	273,557	69,957
Classroom materials and fees . . . . .	37,223	44,150	38,203	(5,947)
Other local revenues . . . . .	29,115	30,701	29,881	(820)
Intergovernmental - State . . . . .	6,929,863	6,986,781	7,112,277	125,496
Total revenues. . . . .	<u>13,837,546</u>	<u>13,773,934</u>	<u>14,201,791</u>	<u>427,857</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,585,557	6,663,467	6,310,066	353,401
Special. . . . .	1,910,873	1,890,095	1,830,936	59,159
Vocational. . . . .	91,283	86,075	87,464	(1,389)
Other. . . . .	474,963	354,270	455,094	(100,824)
Support services:				
Pupil. . . . .	536,191	519,642	513,761	5,881
Instructional staff . . . . .	298,578	310,876	286,088	24,788
Board of education . . . . .	34,308	41,920	32,873	9,047
Administration. . . . .	1,276,162	1,360,171	1,222,777	137,394
Fiscal . . . . .	261,056	270,521	250,135	20,386
Operations and maintenance. . . . .	1,166,830	1,299,652	1,118,018	181,634
Pupil transportation . . . . .	849,613	854,407	814,071	40,336
Central. . . . .	160,880	179,956	154,150	25,806
Extracurricular activities. . . . .	399,411	366,415	382,702	(16,287)
Facilities acquisition and construction. . . . .	-	5,000	-	5,000
Debt service:				
Principal retirement . . . . .	61,961	59,369	59,369	-
Interest and fiscal charges . . . . .	5,702	5,463	5,463	-
Total expenditures . . . . .	<u>14,113,368</u>	<u>14,267,299</u>	<u>13,522,967</u>	<u>744,332</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(275,822)</u>	<u>(493,365)</u>	<u>678,824</u>	<u>1,172,189</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	13,328	22,000	13,679	(8,321)
Advances in. . . . .	2,507	2,573	2,573	-
Advances (out) . . . . .	(261)	(25,000)	(250)	24,750
Sale of capital assets . . . . .	12,731	13,000	13,066	66
Total other financing sources (uses) . . . . .	<u>28,305</u>	<u>12,573</u>	<u>29,068</u>	<u>16,495</u>
Net change in fund balance . . . . .	(247,517)	(480,792)	707,892	1,188,684
<b>Fund balance at beginning of year . . . . .</b>	<b>2,602,397</b>	<b>2,602,397</b>	<b>2,602,397</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>346,629</b>	<b>346,629</b>	<b>346,629</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 2,701,509</u></b>	<b><u>\$ 2,468,234</u></b>	<b><u>\$ 3,656,918</u></b>	<b><u>\$ 1,188,684</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<b>Private Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 94,200	\$ 60,209
Receivables:		
Taxes . . . . .	-	46,901
Accounts . . . . .	-	42
Accrued interest. . . . .	3,509	-
Total assets. . . . .	97,709	\$ 107,152
<b>Liabilities:</b>		
Due to other governments . . . . .	-	\$ 46,901
Due to students . . . . .	-	60,251
Total liabilities. . . . .	-	\$ 107,152
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	97,709	
Total net assets . . . . .	\$ 97,709	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
<b>Additions:</b>		
Gifts and contributions . . . . .	\$ 94,200	
Interest revenue . . . . .	<u>3,509</u>	
Total additions . . . . .	<u>97,709</u>	
Change in net assets . . . . .	97,709	
<b>Net assets at beginning of year . . . . .</b>	<u>-</u>	
<b>Net assets at end of year . . . . .</b>	<u>\$ 97,709</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Berlin-Milan Local School District (the "District") is located in Erie County and Huron Counties and encompasses the Villages of Milan and Berlin Heights and portions of surrounding townships.

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

The District ranks as the 328<sup>th</sup> largest by enrollment among the 876 public school districts and community schools in the State of Ohio, and is the 4<sup>th</sup> largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 78 non-certified and 115 certified employees to provide services to 1,665 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Career Center

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. During 2007, the District paid \$79,792 to NOECA for services. Financial information can be obtained by contacting the Erie-Huron-Ottawa Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

*RELATED ORGANIZATION*

Milan-Berlin Township Public Library

The Library is a distinct political subdivision of the State of Ohio governed by a board of trustees. 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. In 1997, the District passed a tax renewal of .8 mills on behalf of the Library.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

*GOVERNMENTAL FUNDS*

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

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

Permanent Improvement Fund - The permanent improvement fund is used to account for all transactions related to the acquiring, constructing, or improving of permanent improvement.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by the permanent improvement fund; and (b) for grants and other resources whose use is restricted to a particular purpose.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*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. The District's private-purpose trust fund accounts for student scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student-managed activities.

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**D. Basis of Accounting**

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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 governmental funds.

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable is as follows:

1. 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.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. The Erie County Commissioners waived this requirement for fiscal year 2007.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate of Estimated Resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2007.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2007. All amounts reported in the budgetary statement reflect the original and final appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to federal agency securities, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and non-negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$263,587, which includes \$70,977 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis. Inventories are accounted for using the consumption method on the government-wide statements and the purchase method on the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. 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. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 50 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." Interfund balances between governmental funds are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee's salaries are paid.

**K. Accrued Liabilities and Long-Term Obligations**

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, and unclaimed monies. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute. Under Ohio law, unclaimed monies must be held for five years before it becomes available for appropriation. Money not yet held for the five year period is presented as reserved.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**M. Net Assets**

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

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved in the fund financial statements by an amount equal to the carrying value of the asset.

**O. Estimates**

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

**P. 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 basic financial statements.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Entry Year Program	\$ 11
SchoolNet	8
Title VI-B	40,840
Title I	1,625
Title V	29
IDEA Grant	97
Title II-A	401

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**A. Cash on Hand**

At year-end, the District had \$4,300 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all District deposits was \$305,123. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$384,672 of the District's bank balance of \$669,685 was exposed to custodial risk as discussed below, while \$285,013 was covered by the Federal Deposit Insurance Corporation.



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Investments**

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>13 to 18 months</u>
STAR Ohio	\$ 3,542,073	\$ 3,542,073	\$ -
FNMA	434,730	434,730	-
FHLB	898,596	499,220	399,376
Total	<u>\$ 4,875,399</u>	<u>\$ 4,476,023</u>	<u>\$ 399,376</u>

The weighted average maturity of investments is .16 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,542,073	72.65
FNMA	434,730	8.92
FHLB	898,596	18.43
Total	<u>\$ 4,875,399</u>	<u>100.00</u>

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 305,123
Investments	4,875,399
Cash on hand	<u>4,300</u>
Total	<u>\$ 5,184,822</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,030,413
Private-purpose trust funds	94,200
Agency funds	<u>60,209</u>
Total	<u>\$ 5,184,822</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 250

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie and Huron Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$445,424 in the general fund, and \$47,277 in the permanent improvement fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$610,971 in the general fund and \$69,499 in the permanent improvement fund.

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.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 188,606,620	84.34	\$ 210,324,530	91.29
Public utility personal	12,159,540	5.44	12,010,380	5.21
Tangible personal property	<u>22,856,695</u>	<u>10.22</u>	<u>8,062,500</u>	<u>3.50</u>
Total	<u>\$ 223,622,855</u>	<u>100.00</u>	<u>\$ 230,397,410</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$63.00		\$66.95	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities</b>	
Taxes	\$ 7,963,974
Accounts	3,527
Intergovernmental	33,729
Accrued Interest	<u>19,874</u>
Total	<u>\$ 8,021,104</u>

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance <u>06/30/2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/2007</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 469,195	\$ -	\$ -	\$ 469,195
Total capital assets, not being depreciated	<u>469,195</u>	<u>-</u>	<u>-</u>	<u>469,195</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	757,236	54,556	-	811,792
Buildings and improvements	5,546,803	256,434	-	5,803,237
Furniture and equipment	1,666,256	122,175	(43,403)	1,745,028
Vehicles	<u>1,293,056</u>	<u>244,132</u>	<u>(180,656)</u>	<u>1,356,532</u>
Total capital assets, being depreciated	<u>9,263,351</u>	<u>677,297</u>	<u>(224,059)</u>	<u>9,716,589</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(600,893)	(9,845)	-	(610,738)
Buildings and improvements	(3,394,197)	(130,386)	-	(3,524,583)
Furniture and equipment	(1,271,319)	(77,403)	41,201	(1,307,521)
Vehicles	<u>(951,872)</u>	<u>(110,778)</u>	<u>163,316</u>	<u>(899,334)</u>
Total accumulated depreciation	<u>(6,218,281)</u>	<u>(328,412)</u>	<u>204,517</u>	<u>(6,342,176)</u>
Governmental activities capital assets, net	<u>\$ 3,514,265</u>	<u>\$ 348,885</u>	<u>\$ (19,542)</u>	<u>\$ 3,843,608</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 122,993
Special	7,432
Vocational	1,907
<u>Support Services:</u>	
Pupil	1,907
Instructional staff	9,645
Administration	5,394
Fiscal	606
Operations and maintenance	31,941
Pupil transportation	90,245
Food service operations	21,602
Extracurricular activities	<u>34,740</u>
Total depreciation expense	<u>\$ 328,412</u>

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2007</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Energy conservation notes	\$ 121,409	\$ -	\$ (59,369)	\$ 62,040	\$ 62,040
Compensated absences	<u>645,966</u>	<u>231,629</u>	<u>(113,318)</u>	<u>764,277</u>	<u>83,688</u>
Total long-term obligations, governmental activities	<u>\$ 767,375</u>	<u>\$ 231,629</u>	<u>\$ (172,687)</u>	<u>\$ 826,317</u>	<u>\$ 145,728</u>

Compensated absences will be paid from the fund which the employee's salaries are paid which, for the District, is primarily the general fund and the Food Service fund (a nonmajor governmental fund).

- B. During a prior fiscal year, the District issued unvoted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the District's notes outstanding as of June 30, 2007:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Balance <u>June 30, 2006</u>	Retired in <u>Fiscal 2007</u>	Balance <u>June 30, 2007</u>
Energy conservation notes	4.50%	02/26/98	12/01/07	\$ <u>121,409</u>	\$ <u>(59,369)</u>	\$ <u>62,040</u>
Total				<u>\$ 121,409</u>	<u>\$ (59,369)</u>	<u>\$ 62,040</u>

The following is a summary of the District's future annual debt service requirements to maturity for energy conservation notes:

<u>Fiscal Year</u>	<u>Energy Conservation Notes</u>
2008	\$ <u>64,832</u>
Total	64,832
Less: interest	<u>(2,792)</u>
Total	<u>\$ 62,040</u>

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$19,759,055 and an unvoted debt margin of \$219,545.

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents, liability, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The amount of insurance coverage has been maintained or increase over the last several years.

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association, a public entity risk management pool. Monthly payments are made to the Association for health, dental and prescription insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120% of the prior year's aggregate claims. Individual coverage cannot exceed \$2,000,000 for classified, certificated, and administrative in claims during their lifetime.

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

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$206,403, \$196,300, and \$197,075; 52.20 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$98,656 represents the unpaid portion which is reported as a liability in the respective funds.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 11 - PENSION PLANS - (Continued)**

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$789,213, \$803,159, and \$812,195; 82.21 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$140,389 represents the unpaid portion which is reported as a liability in the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$14,233 made by the District and \$17,822 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$60,709 for fiscal year 2007.

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$91,611 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less the premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 707,892
Net adjustment for revenue accruals	(188,093)
Net adjustment for expenditure accruals	46,198
Net adjustment for other sources/uses	(20,324)
Adjustment for encumbrances	<u>160,673</u>
GAAP basis	<u>\$ 706,346</u>

**NOTE 14 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$23,601 per year. A portion of the refund may be recovered from additional state entitlement payments.

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

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 15 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>
Set-aside balance as of June 30, 2006	\$ (636,617)	\$ (2,224,335)
Current year set-aside requirement	256,995	256,995
Current year offsets	(31,526)	(585,491)
Qualifying expenditures	<u>(38,057)</u>	<u>(454,558)</u>
Total	<u>\$ (449,205)</u>	<u>\$ (3,007,389)</u>
Balance carried forward to FY 2008	<u>\$ (417,679)</u>	<u>\$ (2,809,826)</u>

The District had offsets and qualifying disbursements in prior years that reduced the textbook reserve set-asides below zero. This amount is being carried forward to fiscal year 2008.

## **SUPPLEMENTARY DATA**

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
(C) Food Donation	10.550	N/A	\$ -	\$ 31,432	\$ -	\$ 31,432
<b>Total Food Donation</b>			<b>-</b>	<b>31,432</b>	<b>-</b>	<b>31,432</b>
(B) National School Lunch Program	10.555	046789-LLP4-2006	19,483		19,483	
(B) National School Lunch Program	10.555	046789-LLP4-2007	94,990		94,990	
<b>Total National School Lunch Program</b>			<b>114,473</b>		<b>114,473</b>	
<b>Total U.S. Department of Agriculture</b>			<b>114,473</b>	<b>31,432</b>	<b>114,473</b>	<b>31,432</b>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
Title I Grants to Local Educational Agencies	84.010	046789-C1S1-2006	25,916		41,744	
Title I Grants to Local Educational Agencies	84.010	046789-C1S1-2007	193,469		181,681	
<b>Total Title I Grants to Local Educational Agencies</b>			<b>219,385</b>		<b>223,425</b>	
Special Education Cluster:						
(D) Special Education Grants to States	84.027	046789-6BSF-2006	18,795		54,733	
(D) Special Education Grants to States	84.027	046789-6BSF-2007	408,360		404,327	
<b>Total Special Education Grants to States</b>			<b>427,155</b>		<b>459,060</b>	
(D) Special Education Preschool Grants	84.173	046789-PGS1-2006	-		1,596	
(D) Special Education Preschool Grants	84.173	046789-PGS1-2007	20,010		20,010	
<b>Total Special Education Preschool Grants</b>			<b>20,010</b>		<b>21,606</b>	
<b>Total Special Education Cluster</b>			<b>447,165</b>		<b>480,666</b>	
Safe and Drug-Free Schools and Communities State Grants	84.186	046789-DRS1-2006	1,570		6,668	
Safe and Drug-Free Schools and Communities State Grants	84.186	046789-DRS1-2007	6,356		5,136	
<b>Total Safe and Drug-Free Schools and Communities State Grants</b>			<b>7,926</b>		<b>11,804</b>	
State Grants for Innovative Programs	84.298	046789-C2S1-2007	2,348		2,348	
<b>Total State Grants for Innovative Programs</b>			<b>2,348</b>		<b>2,348</b>	
Education Technology State Grants	84.318	046789-TJS1-2006	-		300	
Education Technology State Grants	84.318	046789-TJS1-2007	2,108		2,108	
<b>Total Education Technology State Grants</b>			<b>2,108</b>		<b>2,408</b>	
Improving Teacher Quality State Grants	84.367	046789-TRS1-2007	45,160		45,158	
<b>Total Improving Teacher Quality State Grants</b>			<b>45,160</b>		<b>45,158</b>	
<b>Total U.S. Department of Education</b>			<b>724,092</b>		<b>765,809</b>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES</b>						
Head Start	93.600	HTA1-2007	112		112	
<b>Total Head Start</b>			<b>112</b>		<b>112</b>	
<b>Total U.S. Department of Health and Human Services</b>			<b>112</b>		<b>112</b>	
<b>Total Federal Financial Assistance</b>			<b>\$ 838,677</b>	<b>\$ 31,432</b>	<b>\$ 880,394</b>	<b>\$ 31,432</b>

(A) This schedule was prepared on the cash basis of accounting.

(B) Commingled with state and local revenue from sales of lunches, assumed expenditures were made on a first-in, first-out basis.

(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.

(D) Included as part of "Special Education Grant Cluster" in determining major programs.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Education  
Berlin-Milan Local School District  
140 South Main Street  
Milan, Ohio 44846-9770

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Berlin-Milan Local School District's basic financial statements and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berlin-Milan Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Berlin-Milan Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Berlin-Milan Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Berlin-Milan Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Berlin-Milan Local School District's financial statements that is more than inconsequential will not be prevented or detected by Berlin-Milan Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Berlin-Milan Local School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education  
Berlin-Milan Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berlin-Milan Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 20, 2007





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133**

Board of Education  
Berlin-Milan Local School District  
140 South Main Street  
Milan, Ohio 44846-9770

Compliance

We have audited the compliance of Berlin-Milan Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. Berlin-Milan Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Berlin-Milan Local School District's management. Our responsibility is to express an opinion on Berlin-Milan Local School 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Berlin-Milan Local School Districts compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Berlin-Milan Local School District's compliance with those requirements.

In our opinion, Berlin-Milan Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Internal Control Over Compliance

The management of Berlin-Milan Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Berlin-Milan Local School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Berlin-Milan Local School District's internal control over compliance.

Board of Education  
Berlin-Milan Local School District

A control deficiency in Berlin-Milan Local School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Berlin-Milan Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Berlin-Milan Local School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Berlin-Milan Local School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.  
December 20, 2007

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	<i>Special Education Cluster: Special Education - Grants to States CFDA #84.027 and Special Education - Preschool Grants CFDA #84.173</i>
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 § .505*  
JUNE 30, 2007**

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



**Mary Taylor, CPA**  
Auditor of State

**BERLIN MILAN LOCAL SCHOOL DISTRICT**

**ERIE 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  
FEBRUARY 15, 2008**