

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

JILL WEIDNER, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Mount Gilead Exempted Village School District
145 1/2 North Cherry Street
Mount Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of the Mount Gilead Exempted Village School District, Morrow 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 Mount Gilead Exempted Village School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 13, 2008

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15 - 16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	21
Statement of Net Assets - Proprietary Fund.....	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	23
Statement of Cash Flows - Proprietary Fund.....	24
Statement of Fiduciary Net Assets - Fiduciary Fund.....	25
Notes to the Basic Financial Statements.....	26 - 65
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	66
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	67 - 68
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	69 - 70
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	71 - 72
Status of Prior Audit Findings <i>OMB Circular A-133 §.505</i>	73



Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Mount Gilead Exempted Village School District
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, Morrow County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Mount Gilead Exempted Village School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mount Gilead Exempted Village 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows 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 18, 2007, on our consideration of the Mount Gilead Exempted Village 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 supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Mount Gilead Exempted Village School District
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Gilead Exempted Village 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 the Mount Gilead Exempted Village 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 18, 2007

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

The management's discussion and analysis of the Mt. Gilead Exempted Village 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 \$21,133,208 which represents a 406.93% increase from 2006. The primary reason for the significant increase was the grant award received from the Ohio School Facilities Commission for construction and renovation projects.
- General revenues accounted for \$30,264,551 in revenue or 90.39% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,216,741 or 9.61% of total revenues of \$33,481,292.
- The District had \$12,348,084 in expenses related to governmental activities; \$3,216,741 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 \$10,813,708 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, and classroom facilities fund. The general fund had \$11,440,406 in revenues and \$10,382,269 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance increased \$1,058,137 from \$304,234 to \$1,362,371.
- The debt service fund had \$833,996 in revenues and \$728,117 in expenditures. During fiscal year 2007, the debt service fund's fund balance increased \$105,879 from \$950,257 to \$1,056,136.
- The classroom facilities fund had \$1,837,817 in revenues and other financing sources and \$352,509 in expenditures. During fiscal year 2007, the classroom facilities fund's fund balance increased \$1,485,308 from a zero balance.

Using these 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, debt service fund, and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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 14-16 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, debt service fund, and classroom facilities 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 17-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical, dental and vision self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 25. 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 26-64 of this report.

The District as a Whole

Recall that 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.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 30,517,293	\$ 7,479,921
Capital assets, net	<u>13,132,829</u>	<u>12,983,019</u>
Total assets	<u>43,650,122</u>	<u>20,462,940</u>
<u>Liabilities</u>		
Current liabilities	6,109,684	4,846,811
Long-term liabilities	<u>11,213,920</u>	<u>10,422,819</u>
Total liabilities	<u>17,323,604</u>	<u>15,269,630</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,190,006	5,169,968
Restricted	20,847,486	1,508,004
Unrestricted (deficit)	<u>289,026</u>	<u>(1,484,662)</u>
Total net assets	<u>\$ 26,326,518</u>	<u>\$ 5,193,310</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 \$26,326,518. Of this total, \$20,847,486 is restricted in use.

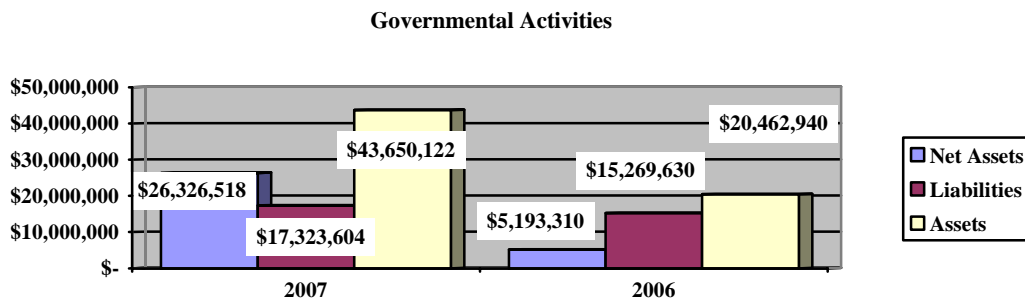
**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

At year-end, capital assets represented 30.09% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$5,190,006. 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, \$20,847,486, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$289,026.

The graph below displays the governmental activities for assets, liabilities, and net assets for fiscal year 2007 and 2006.



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,577,910	\$ 1,338,575
Operating grants and contributions	1,631,546	1,009,829
Capital grants and contributions	7,285	16,512
General revenues:		
Property taxes	3,589,962	3,620,488
Income taxes	1,061,536	902,774
Grants and entitlements	25,013,972	6,140,694
Investment earnings	244,419	99,946
Other	354,662	316,612
Total revenues	33,481,292	13,445,430

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,165,954	\$ 4,991,940
Special	1,379,724	1,232,992
Vocational	316,184	347,938
Other	1,191,177	1,288,485
Support services:		
Pupil	512,937	476,375
Instructional staff	568,965	626,118
Board of education	61,778	53,049
Administration	722,876	776,487
Fiscal	386,593	370,960
Operations and maintenance	1,273,957	1,423,680
Pupil transportation	476,866	609,581
Central	24,312	27,081
Operations of non-instructional services:		
Food service operations	396,256	394,833
Other non-instructional services	-	1,000
Extracurricular activities	399,364	289,639
Interest and fiscal charges	<u>471,141</u>	<u>396,838</u>
Total expenses	<u>12,348,084</u>	<u>13,306,996</u>
Special item - gain on sale of building	-	123,406
Change in net assets	21,133,208	261,840
Net assets at beginning of year	<u>5,193,310</u>	<u>4,931,470</u>
Net assets at end of year	<u>\$ 26,326,518</u>	<u>\$ 5,193,310</u>

Governmental Activities

Net assets of the District's governmental activities increased \$21,133,208. The primary reason for the increase was the grant award received from the Ohio School Facilities Commission for construction and renovations in the amount of \$19,450,843. Total governmental expenses of \$12,348,084 were offset by program revenues of \$3,216,741 and general revenues of \$10,813,708. Program revenues supported 26.05% of the total governmental expenses.

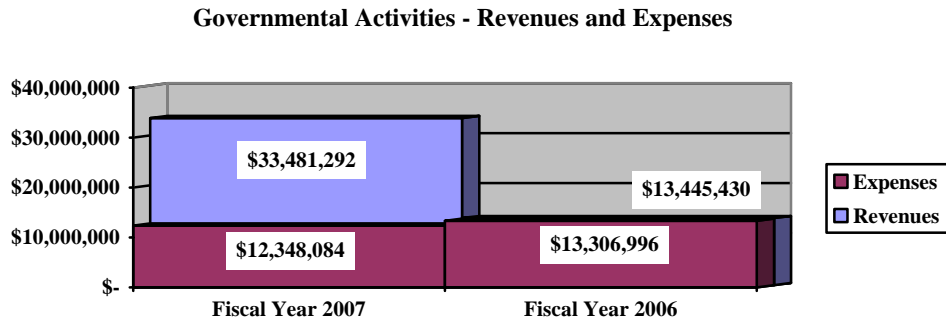
The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 88.60% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,053,039 or 57.12% of total governmental expenses for fiscal 2007.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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 table below shows the cost of program services for 2007 and 2006.

Governmental Activities

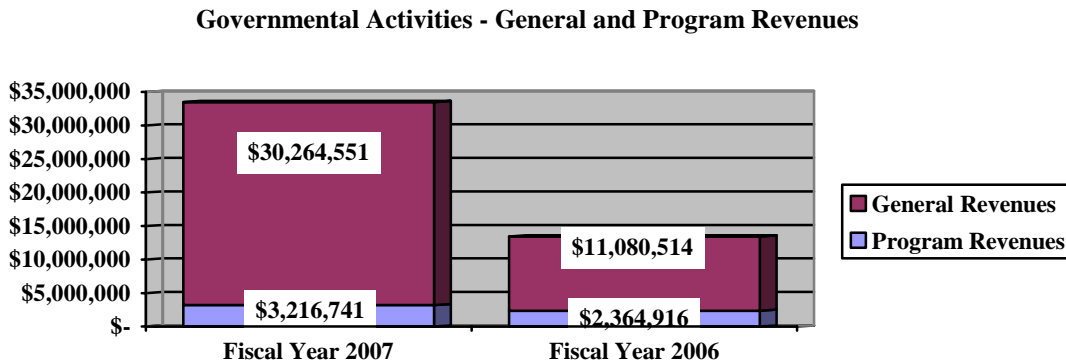
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 4,165,954	\$ 2,926,767	\$ 4,991,940	\$ 3,773,265
Special	1,379,724	379,351	1,232,992	864,288
Vocational	316,184	248,123	347,938	347,938
Other	1,191,177	1,185,539	1,288,485	1,288,485
Support services:				
Pupil	512,937	512,937	476,375	461,737
Instructional staff	568,965	451,087	626,118	456,125
Board of education	61,778	61,778	53,049	53,049
Administration	722,876	606,549	776,487	696,576
Fiscal	386,593	385,096	370,960	368,828
Operations and maintenance	1,273,957	1,182,952	1,423,680	1,393,202
Pupil transportation	476,866	429,369	609,581	609,581
Central	24,312	10,312	27,081	22,081
Operations of non-instructional services:				
Food service operations	396,256	29,779	394,833	31,637
Other non-instructional services	-	-	1,000	1,000
Extracurricular activities	399,364	250,563	289,639	177,450
Interest and fiscal charges	471,141	471,141	396,838	396,838
Total expenses	\$ 12,348,084	\$ 9,131,343	\$ 13,306,996	\$ 10,942,080

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 67.20% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 73.95%. The District's taxpayers, and the State of Ohio, as a whole, are by far the primary supports for District's students.

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,333,893, which is higher than last year's total of \$1,656,536. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 1,362,371	\$ 304,234	\$ 1,058,137	347.80 %
Debt Service	1,056,136	950,257	105,879	11.14 %
Classroom Facilities	1,485,308	-	1,485,308	100.00 %
Other Governmental	<u>430,078</u>	<u>402,045</u>	<u>28,033</u>	6.97 %
Total	<u>\$ 4,333,893</u>	<u>\$ 1,656,536</u>	<u>\$ 2,677,357</u>	161.62 %

General Fund

The District's general fund balance increased \$1,058,137. The increase in fund balance can be attributed to several items related to increasing revenues and decreases in expenditures. Revenues exceeded expenditures for fiscal year 2007 by \$1,091,925. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,754,299	\$ 3,501,460	\$ 252,839	7.22 %
Tuition	1,027,740	905,951	121,789	13.44 %
Earnings on investments	202,451	96,746	105,705	109.26 %
Intergovernmental	6,086,156	6,042,440	43,716	0.72 %
Other revenues	<u>369,760</u>	<u>347,090</u>	<u>22,670</u>	6.53 %
 Total	 <u>\$11,440,406</u>	 <u>\$ 10,893,687</u>	 <u>\$ 546,719</u>	 5.02 %
<u>Expenditures</u>				
Instruction	\$ 6,407,985	\$ 6,718,360	\$ (310,375)	(4.62) %
Support services	3,801,195	3,940,341	(139,146)	(3.53) %
Extracurricular activities	130,213	172,112	(41,899)	(24.34) %
Debt service	<u>9,088</u>	<u>7,089</u>	<u>1,999</u>	28.20 %
 Total	 <u>\$10,348,481</u>	 <u>\$ 10,837,902</u>	 <u>\$ (489,421)</u>	 (4.52) %

Earnings on investments increased due to increasing interest rates during fiscal year 2007. Tuition increased due to increases in revenue from open enrollment. Expenditures have decreased due to measures taken to save money during the fiscal year.

Debt Service Fund

The debt service fund had \$833,996 in revenues and \$728,117 in expenditures. During fiscal year 2007, the debt service fund's fund balance increased \$105,879 from \$950,257 to \$1,056,136.

Classroom Facilities Fund

The classroom facilities fund had \$1,837,817 in revenues and other financing sources and \$352,509 in expenditures. During fiscal year 2007, the classroom facilities fund's fund balance increased \$1,485,308 from a zero balance. This fund was established during the fiscal year to account for the construction and renovation projects partially funded by the Ohio School Facilities Commission.

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, original budgeted revenues and other financing sources were \$11,004,906. Final budgeted and actual revenues and other financing sources for fiscal 2007 was \$12,176,983.

General fund original appropriations were \$11,535,963 and final appropriations were \$11,903,047. The actual budget basis expenditures for fiscal year 2007 totaled \$11,263,364, which was \$639,683 less than the final budget appropriations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$13,132,829 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 26,121	\$ 26,121
Construction in progress	482,867	-
Land improvements	14,465	117,604
Building and improvements	11,770,385	11,953,322
Furniture and equipment	638,306	695,440
Vehicles	200,685	190,532
Total	<u>\$ 13,132,829</u>	<u>\$ 12,983,019</u>

The overall increase in capital assets of \$149,810 is due to capital outlays of \$628,130 exceeding depreciation expense of \$363,998 and disposals of \$114,322 in the fiscal year.

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

Debt Administration

At June 30, 2007, the District had \$9,173,948 in general obligation bonds outstanding. Of this total, \$345,000 is due within one year and \$8,828,948 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
General obligation bonds	\$ 9,173,948	\$ 9,439,452
Total	<u>\$ 9,173,948</u>	<u>\$ 9,439,452</u>

At June 30, 2007, the District's overall legal debt margin was \$4,851,004, and an unvoted debt margin of \$138,554.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Current Financial Related Activities

The District's financial future certainly has its challenges. The challenges are at both the local and state levels. Local and state challenges will continue with the District's heavy reliance on both for operational funds. Currently, local and state tax dollars support forty and sixty percent of the operations respectively.

Although the District relies heavily on its property taxpayers to support operations, the support for the school is very strong as evidenced by recent levy outcomes. Since 1999 the local taxpayers have supported the District by passing the following:

- 1999 – Renewal of a .75% Income Tax levy for a period of five years.
- 1999 – 4.7 mill Bond Issue in the principal amount of \$9,000,000.
- 2000 – Replacement of a 0.5 mill Permanent Improvement levy.
- 2003 – Renewal of a .75% Income Tax levy for a period of five years.
- 2004 – Replacement of a 0.75 mill Permanent Improvement levy.

These additional revenues supported by the bond and permanent improvement levies cost local taxpayers annually approximately \$720,000 and \$40,000 respectively.

The community last passed a new operating levy May 1994, for a period of five years. This Income Tax levy has subsequently been renewed twice. This is currently the only fixed term operating levy the District collects.

The District's five-year forecast is certainly challenging. In efforts to avoid any projected deficit, the District has implemented approximately seven hundred thousand dollars in budget cuts over the last two school years and is looking to cut an additional three hundred thousand dollars out of the upcoming school year.

The following factors are causing the District to make the above-mentioned budgetary cuts and return to the voters for additional operating monies:

- Bankruptcy and closing of local manufacturing plant.
- State legislators phasing out inventory portion of Personal Property Tax.
- State Legislators phasing out Personal Property Tax Exemption.
- State Legislators reducing the State Formula Per Pupil Funding increase.
- Reduction in investment income due to reduction in market rates.
- Increase in Health Insurance premiums
- Utility cost increase, primarily due to natural gas prices.
- Loss of revenues to community schools.
- Increase special education costs due to additional students.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education funding system, one that was neither 'adequate' nor 'equitable'. Since 1997 the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'adequate' nor 'equitable'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it was expected that the decision would result in an increase in overall State funding for education. On December 11, 2002, the Ohio Supreme Court issued another opinion regarding the State's school funding plan. The decision reaffirmed the earlier decisions that Ohio's current school funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what, if any, effect these decision will have on its future State funding, or financial operation.

The District has not anticipated any meaningful growth in State revenue.

As a result of the challenges mentioned above, it is imperative the District's management continue to carefully and prudently plan the future of this District in order to provide the necessary resources to meet the students need over the next few years.

Contacting the District Treasurer

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the School District's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Jill Weidner, Treasurer, at Mt. Gilead Exempted Village School District, 145 ½ North Cherry Street, Mt. Gilead, OH 43338.

**BASIC
FINANCIAL STATEMENTS**

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government	Component Units	
	Governmental Activities	GOAL Digital Academy	Tomorrow Center
Assets:			
Equity in pooled cash and cash equivalents.	\$ 4,899,561	\$ 331,309	\$ 203,868
Cash with fiscal agent.	177,413	-	-
Receivables:			
Taxes	6,285,243	-	-
Accounts	7,843	-	-
Intergovernmental	18,843,744	-	8,846
Accrued interest	22,863	-	-
Due from component units	126,706	-	-
Prepayments	11,167	-	1,844
Materials and supplies inventory	6,451	-	-
Unamortized bond issue costs	136,302	-	-
Capital assets:			
Land and construction in progress	508,988	-	-
Depreciable capital assets, net	12,623,841	178,901	172,332
Total capital assets, net.	<u>13,132,829</u>	<u>178,901</u>	<u>172,332</u>
Total assets.	<u>43,650,122</u>	<u>510,210</u>	<u>386,890</u>
Liabilities:			
Accounts payable.	69,652	-	-
Contracts payable.	104,165	-	-
Accrued wages and benefits	905,589	-	-
Pension obligation payable.	223,743	-	-
Intergovernmental payable	135,149	29,183	9,504
Due to primary government.	-	76,032	50,674
Unearned revenue.	4,492,964	-	-
Accrued interest payable	33,900	-	-
Claims payable	144,522	-	-
Long-term liabilities:			
Due within one year	447,481	-	-
Due in more than one year	10,766,439	-	-
Total liabilities.	<u>17,323,604</u>	<u>105,215</u>	<u>60,178</u>
Net Assets:			
Invested in capital assets, net of related debt.	5,190,006	178,901	172,332
Restricted for:			
Capital projects	19,464,736	-	-
Debt service.	1,181,719	-	-
Classroom facilities maintenance	33,190	-	-
State funded programs.	9,657	11,605	4,088
Federally funded programs.	69,372	1,323	2,640
Student activities.	30,173	-	-
Other purposes	58,639	-	-
Unrestricted	<u>289,026</u>	<u>213,166</u>	<u>147,652</u>
Total net assets.	<u>\$ 26,326,518</u>	<u>\$ 404,995</u>	<u>\$ 326,712</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,165,954	\$ 958,236	\$ 280,951	\$ -	\$ (2,926,767)
Special	1,379,724	103,003	897,370	-	(379,351)
Vocational	316,184	-	68,061	-	(248,123)
Other	1,191,177	-	5,638	-	(1,185,539)
Support services:					
Pupil	512,937	-	-	-	(512,937)
Instructional staff	568,965	-	117,878	-	(451,087)
Board of education	61,778	-	-	-	(61,778)
Administration	722,876	97,838	18,489	-	(606,549)
Fiscal	386,593	-	1,497	-	(385,096)
Operations and maintenance	1,273,957	91,005	-	-	(1,182,952)
Pupil transportation	476,866	-	40,212	7,285	(429,369)
Central	24,312	-	14,000	-	(10,312)
Operation of non-instructional services:					
Food service operations	396,256	184,199	182,278	-	(29,779)
Extracurricular activities	399,364	143,629	5,172	-	(250,563)
Interest and fiscal charges	471,141	-	-	-	(471,141)
Total governmental activities	<u>12,348,084</u>	<u>1,577,910</u>	<u>1,631,546</u>	<u>7,285</u>	<u>(9,131,343)</u>
Component Units:					
GOAL Digital Academy	922,498	-	55,387	-	-
Tomorrow Center	702,272	12,346	144,129	-	-
Total component units	<u>1,624,770</u>	<u>12,346</u>	<u>199,516</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 13,972,854</u>	<u>\$ 1,590,256</u>	<u>\$ 1,831,062</u>	<u>\$ 7,285</u>	<u>(9,131,343)</u>
General Revenues:					
Property taxes levied for:					
General purposes					2,751,545
Debt service					755,867
Capital projects					52,405
Special revenue					30,145
School district income tax					1,061,536
Grants and entitlements restricted for Ohio School Facilities Commission					19,450,843
Grants and entitlements not restricted to specific programs					5,563,129
Investment earnings					244,419
Miscellaneous					354,662
Total general revenues					<u>30,264,551</u>
Change in net assets					21,133,208
Net assets at beginning of year					<u>5,193,310</u>
Net assets at end of year					<u>\$ 26,326,518</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,747,322	\$ 1,005,293	\$ 1,543,866	\$ 544,441	\$ 4,840,922
Receivables:					
Taxes	5,221,616	953,043	-	110,584	6,285,243
Accounts	7,843	-	-	-	7,843
Intergovernmental	4,756	-	18,711,395	127,593	18,843,744
Accrued interest	16,078	-	6,785	-	22,863
Due from component units	126,706	-	-	-	126,706
Due from other funds	9,217	-	-	-	9,217
Prepayments	11,167	-	-	-	11,167
Materials and supplies inventory	-	-	-	6,451	6,451
Restricted assets:					
Equity in pooled cash and cash equivalents	58,639	-	-	-	58,639
Total assets	<u>\$ 7,203,344</u>	<u>\$ 1,958,336</u>	<u>\$ 20,262,046</u>	<u>\$ 789,069</u>	<u>\$ 30,212,795</u>
Liabilities:					
Accounts payable	\$ 3,312	\$ -	\$ 65,343	\$ 997	\$ 69,652
Contracts payable	-	-	-	104,165	104,165
Accrued wages and benefits	840,794	-	-	64,795	905,589
Compensated absences payable	29,930	-	-	3,749	33,679
Pension obligation payable.	209,933	-	-	13,810	223,743
Intergovernmental payable.	125,773	895	-	8,481	135,149
Due to other funds	-	-	-	9,217	9,217
Deferred revenue.	965,406	159,482	18,711,395	68,461	19,904,744
Unearned revenue	3,665,825	741,823	-	85,316	4,492,964
Total liabilities	<u>5,840,973</u>	<u>902,200</u>	<u>18,776,738</u>	<u>358,991</u>	<u>25,878,902</u>
Fund Balances:					
Reserved for encumbrances	71,349	-	969,440	131,710	1,172,499
Reserved for materials and supplies inventory.	-	-	-	6,451	6,451
Reserved for prepayments	11,167	-	-	-	11,167
Reserved for property tax unavailable for appropriation	147,588	41,544	-	4,527	193,659
Reserved for textbooks.	58,639	-	-	-	58,639
Reserved for debt service.	-	1,014,592	-	-	1,014,592
Unreserved, undesignated, reported in:					
General fund	1,073,628	-	-	-	1,073,628
Special revenue funds.	-	-	-	141,391	141,391
Capital projects funds.	-	-	515,868	145,999	661,867
Total fund balances	<u>1,362,371</u>	<u>1,056,136</u>	<u>1,485,308</u>	<u>430,078</u>	<u>4,333,893</u>
Total liabilities and fund balances	<u>\$ 7,203,344</u>	<u>\$ 1,958,336</u>	<u>\$ 20,262,046</u>	<u>\$ 789,069</u>	<u>\$ 30,212,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

Total governmental fund balances		\$	4,333,893
<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.			13,132,829
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,068,628	
Intergovernmental revenue		18,760,409	
Accounts receivable		75,707	
Total		19,904,744	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			32,891
Unamortized premiums on bond issuance is not recognized in the funds.			(482,973)
Unamortized bond issuance costs are not recognized in the funds.			136,302
Deferred charges are not recognized in the funds.			346,672
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(33,900)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(558,320)	
Lease purchase agreement		(1,292,000)	
General obligation bonds payable		(9,173,948)	
Capital lease		(19,672)	
Total		(11,043,940)	
Net assets of governmental activities		\$	26,326,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 3,754,299	\$ 749,194	\$ -	\$ 80,836	\$ 4,584,329
Tuition.	1,027,740	-	-	-	1,027,740
Charges for services.	-	-	-	184,199	184,199
Earnings on investments.	202,451	-	35,950	3,314	241,715
Extracurricular.	-	-	-	241,467	241,467
Classroom materials and fees	-	-	-	33,499	33,499
Rental income	15,298	-	-	-	15,298
Other local revenues.	354,462	-	-	21,161	375,623
Intergovernmental - State.	6,086,156	84,802	739,448	210,517	7,120,923
Intergovernmental - Federal	-	-	-	751,124	751,124
Total revenue	<u>11,440,406</u>	<u>833,996</u>	<u>775,398</u>	<u>1,526,117</u>	<u>14,575,917</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,860,371	-	-	281,663	4,142,034
Special.	1,035,484	-	-	389,337	1,424,821
Vocational.	325,565	-	-	-	325,565
Other.	1,186,565	-	-	4,612	1,191,177
Support services:					
Pupil.	524,367	-	-	1,267	525,634
Instructional staff	449,862	-	-	114,252	564,114
Board of education	61,778	-	-	-	61,778
Administration.	674,218	-	-	146,833	821,051
Fiscal	341,562	20,343	24,000	1,422	387,327
Operations and maintenance.	1,238,371	-	-	-	1,238,371
Pupil transportation	500,466	-	-	-	500,466
Central.	10,571	-	-	13,741	24,312
Operation of non-instructional services:					
Food service operations	-	-	-	397,493	397,493
Extracurricular activities.	130,213	-	-	156,523	286,736
Facilities acquisition and construction	-	-	328,509	232,277	560,786
Debt service:					
Principal retirement	6,059	330,000	-	-	336,059
Interest and fiscal charges	3,029	377,774	-	22,033	402,836
Total expenditures	<u>10,348,481</u>	<u>728,117</u>	<u>352,509</u>	<u>1,761,453</u>	<u>13,190,560</u>
Excess of revenues over (under) expenditures.	<u>1,091,925</u>	<u>105,879</u>	<u>422,889</u>	<u>(235,336)</u>	<u>1,385,357</u>
Other financing sources (uses):					
Transfers in	-	-	-	33,788	33,788
Transfers (out)	(33,788)	-	-	-	(33,788)
Issuance of lease purchase.	-	-	1,062,419	229,581	1,292,000
Total other financing sources (uses)	<u>(33,788)</u>	<u>-</u>	<u>1,062,419</u>	<u>263,369</u>	<u>1,292,000</u>
Net change in fund balances	1,058,137	105,879	1,485,308	28,033	2,677,357
Fund balances at beginning of year.	<u>304,234</u>	<u>950,257</u>	<u>-</u>	<u>402,045</u>	<u>1,656,536</u>
Fund balances at end of year.	<u>\$ 1,362,371</u>	<u>\$ 1,056,136</u>	<u>\$ 1,485,308</u>	<u>\$ 430,078</u>	<u>\$ 4,333,893</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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

Net change in fund balances - total governmental funds \$ 2,677,357

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital asset additions	\$ 628,130	
Current year depreciation	(363,998)	
Total		264,132

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (114,322)

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

Delinquent property taxes	67,169	
Intergovernmental	18,759,795	
Accounts receivable	75,707	
Total		18,902,671

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 336,059

The issuance of lease purchase agreements are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (1,292,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:

Increase in accrued interest payable	(3,810)	
Accreted interest on "capital appreciation" bonds	(64,496)	
Amortization of bond issuance costs	(6,364)	
Amortization on bond premiums	22,552	
Amortization of deferred charge on refunding	(16,187)	
Total		(68,305)

Some expenses, such as compensated absences reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. 173,832

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. 253,784

Change in net assets of governmental activities **\$ 21,133,208**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,367,298	\$ 3,725,931	\$ 3,725,931	\$ -
Tuition.	848,531	938,904	938,904	-
Earnings on investments.	168,434	186,373	186,373	-
Other local revenues	989,304	1,094,670	1,094,670	-
Intergovernmental - State	5,500,342	6,086,156	6,086,156	-
Total revenue	<u>10,873,909</u>	<u>12,032,034</u>	<u>12,032,034</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,163,238	4,296,847	4,232,466	64,381
Special.	1,195,964	1,234,345	1,189,298	45,047
Vocational.	318,492	328,713	327,022	1,691
Other.	1,291,193	1,332,631	1,223,159	109,472
Support services:				
Pupil.	586,405	605,224	528,333	76,891
Instructional staff	566,955	585,150	460,387	124,763
Board of education	67,932	70,112	61,547	8,565
Administration.	776,884	801,816	800,269	1,547
Fiscal	353,909	365,267	362,535	2,732
Operations and maintenance.	1,464,112	1,511,099	1,356,435	154,664
Pupil transportation	556,561	574,422	536,733	37,689
Central.	23,496	24,250	16,556	7,694
Extracurricular activities.	133,707	134,865	130,318	4,547
Debt service:				
Interest and fiscal charges	1,938	2,000	2,000	-
Total expenditures	<u>11,500,786</u>	<u>11,866,741</u>	<u>11,227,058</u>	<u>639,683</u>
Excess of revenues over (under) expenditures.	<u>(626,877)</u>	<u>165,293</u>	<u>804,976</u>	<u>639,683</u>
Other financing sources (uses):				
Transfers (out)	(32,737)	(33,788)	(33,788)	-
Advances in.	130,997	144,949	144,949	-
Advances (out)	(2,440)	(2,518)	(2,518)	-
Total other financing sources (uses).	<u>95,820</u>	<u>108,643</u>	<u>108,643</u>	<u>-</u>
Net change in fund balance	(531,057)	273,936	913,619	639,683
Fund balance at beginning of year.	778,847	778,847	778,847	-
Prior year encumbrances appropriated	48,551	48,551	48,551	-
Fund balance at end of year	<u>\$ 296,341</u>	<u>\$ 1,101,334</u>	<u>\$ 1,741,017</u>	<u>\$ 639,683</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Cash with fiscal agent	\$ 177,413
 Total assets	 <u>177,413</u>
Liabilities:	
Current:	
Claims payable	<u>144,522</u>
 Total liabilities	 <u>144,522</u>
Net assets:	
Unrestricted.	<u>32,891</u>
 Total net assets	 <u><u>\$ 32,891</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 1,479,850
Total operating revenues.	<u>1,479,850</u>
Operating expenses:	
Purchased services.	67,829
Claims	<u>1,160,941</u>
Total operating expenses.	<u>1,228,770</u>
Operating income	<u>251,080</u>
Nonoperating revenues:	
Interest revenue	<u>2,704</u>
Total nonoperating revenues.	<u>2,704</u>
Change in net assets	253,784
Net assets (deficit) at beginning of year. .	<u>(220,893)</u>
Net assets at end of year	<u><u>\$ 32,891</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 1,479,850
Cash payments for purchased services.	(67,829)
Cash payments for claims	<u>(1,125,722)</u>
Net cash provided by operating activities	<u>286,299</u>
Cash flows from noncapital financing activities:	
Cash used to repay interfund loans	<u>(142,431)</u>
Net cash used in noncapital financing activities.	<u>(142,431)</u>
Cash flows from investing activities:	
Interest received	<u>2,704</u>
Net cash provided by investing activities	<u>2,704</u>
Net increase in cash and cash equivalents	146,572
Cash and cash equivalents at beginning of year . . .	<u>30,841</u>
Cash and cash equivalents at end of year.	<u><u>\$ 177,413</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 251,080
Changes in assets and liabilities:	
Increase in claims payable	<u>35,219</u>
Net cash provided by operating activities	<u><u>\$ 286,299</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 18,530
Total assets	<u>\$ 18,530</u>
Liabilities:	
Accounts payable.	\$ 70
Due to students	<u>18,460</u>
Total liabilities	<u>\$ 18,530</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mount Gilead Exempted Village School District (the "District") is located in Morrow County, including all of the Village of Mount Gilead, Ohio, and portions of surrounding townships. The District serves an area of approximately 68 square miles.

The District was established in 1873 through the consolidation of existing land areas and school districts, and in 1960 the Edison School District also became part of the Mount Gilead Exempted Village School District. The District 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 364th largest by enrollment among the 876 public school districts in the State, and the 2nd largest in Morrow County. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 63 non-certified and 97 certified employees to provide services to approximately 1,490 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 and to its proprietary fund 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 access 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 two component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

DISCRETELY PRESENTED COMPONENT UNITS

The GOAL Digital Academy Community School (GDA)

The GDA is a legally separate, conversion community school, served by a Board of Directors. The GDA provides students within the District and throughout Ohio with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Treasurer, Special Education Director, Technology Director, and two additional Board members appointed by the District. The District is the sponsoring District of the GDA under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the GDA and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the GDA, the GDA's purpose of servicing the students with the District, and the relationship between the Board of the Education of the District and the Board of Directors of the GDA, the GDA is reflected as a component unit of the District. It is reported separately to emphasize that it is legally separate from the District. The GDA paid the District \$202,587 for contract services provided by the District during fiscal year 2007. Separately issued financial statements for the GDA can be obtained from the Treasurer of the GOAL Digital Academy at the Mid-Ohio Educational Service Center, Steve Earnest, at 890 West Fourth Street, Suite 100, Mansfield, Ohio 44906.

The Tomorrow Center Community School (Center)

The Center is a legally separate, conversion community school, serviced by a Board of Directors. The Center focuses on serving students at risk of or already in therapeutic residential placement, and provides an alternative to the traditional educational setting. The Center was organized under Ohio Law Section 3314, and the District is the sponsor. The Center was founded utilizing existing programs within the existing structure of the District. The employees of the Center remain part of the collective bargaining unit of the District. Based on the significant services provided by the District to the Center and the Center's purpose of serving the students within the District, the Center is reflected as a component unit of the District. The Center is reported separately to emphasize that it is legally separate from the District. The Center paid the District \$466,543 for contract services provided by the District during fiscal year 2007. Separately issued financial statements for the Center can be obtained from the Treasurer of the Tomorrow Center Community School, Jill Weidner, at 145½ North Cherry Street, P.O. Box 239, Mt. Gilead, Ohio 43338.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component units can be found in Note 19 and Note 20 to these basic financial statements.

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA 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 TRECA 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. TRECA 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. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, P.O. Box 239, Marion, Ohio 43302.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

Tri Rivers Career Center

The Tri Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

RELATED ORGANIZATION

Mount Gilead Public Library

The Mount Gilead Public Library (the "Library") is a related organization to the District. The School Board members are responsible for appointing the trustees of the Public Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The Library may issue debt and determines its own budget. Library general obligation debt currently serviced by the District is described in Note 11.

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

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. See Note 12 for further information on the Plan.

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.

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:

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for financial resource and expenditures related to the school facilities construction project.

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 proprietary funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

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 has no private-purpose trust funds. 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 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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (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, school district income tax, tuition and grants.

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.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

E. Budgets

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund. Although the legal level of budgetary control was established at the fund level for the general fund, the District has elected to present the budgetary statement comparison at the fund and function level of expenditures. Any budgetary modification at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$202,451, which includes \$111,411 assigned from other funds.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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 fiscal 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 and are expensed when used. Inventories are accounted for using the consumption method.

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These 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. During fiscal year 2007, the District maintained a capitalization threshold of \$5,000. 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 and construction in progress 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	15 - 20 years
Buildings and improvements	20 - 70 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from negative cash balances in certain funds (see Note 5.B) are classified as "due to/due from other funds." Receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payables". The District had no interfund receivable/payables at June 30, 2007. These amounts are eliminated in the governmental activities column on the statement of net assets.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

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.

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 fifty or greater with at least five years of service; or twenty years of service at any 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, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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, claims and judgments, 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. Bonds are recognized as a liability on the fund financial statements when due.

L. Operating Revenues and Expenses

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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. 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, textbooks, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

N. 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 amount restricted for other purposes is the amount reserved for textbooks.

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

O. 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.

P. Parochial Schools

Mount Gilead Christian School operates within the District's boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and fiduciary responsibility of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

Q. 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.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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

R. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve. This reserve is required by State statute. A schedule of statutory reserves is presented in Note 17.

S. 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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

T. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 11.A.

U. 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. The District had neither type of transaction during fiscal year 2007.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 6,258
Auxiliary Services	11
Alternative Recovery School	354
Ohio SchoolNet	22
Title VI-B Grant	21,677
Title I Grant	850
Drug Free Schools Grant	9
Title IV	1,231

The general fund is liable for any deficits in the nonmajor 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;

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW 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 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 \$2,605 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. Cash with Fiscal Agent

At fiscal year-end, the District had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency Self-funded Insurance Program (the "Program") of \$177,413. This money is held by the Program's fiscal agent in a pooled account which is representative of numerous entities and therefore, cannot be classify by risk.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$3,297,947. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$3,708,234 of the District's bank balance of \$3,908,234 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. 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.

D. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 1,617,539</u>	<u>\$ 1,617,539</u>

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: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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	<u>\$ 1,617,539</u>	<u>100.00</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Reconciliation of Cash and Investment to the Statement of Net Assets

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,297,947
Investments	1,617,539
Cash on hand	2,605
Cash with fiscal agent	<u>177,413</u>
Total	<u>\$ 5,095,504</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,076,974
Agency fund	<u>18,530</u>
Total	<u>\$ 5,095,504</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General fund	\$ 33,788
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Transfers are used to move unrestricted revenues of the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from nonmajor governmental funds were made to close out student activities into the principle's funds.

Interfund transfers between governmental funds have been eliminated for reporting on the government-wide statement of activities.

- B.** At June 30, 2007, a certain fund had a negative cash balance. This fund's overdraft of the internal investment pool has been reported as a fund liability of the respective fund.

<u>Major Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 9,217	\$ -
<u>Nonmajor Governmental Funds</u>		
Title VI - B	<u>-</u>	<u>9,217</u>
Total	<u>\$ 9,217</u>	<u>\$ 9,217</u>

Amounts due to/from other funds between governmental funds have been eliminated for reporting on the government-wide statement of net assets.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

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.

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 2006-2010, 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 Morrow County. The County Auditor periodically advances 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.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2007 was \$147,588 in the general fund, \$41,544 in the debt service fund and \$4,527 in a nonmajor capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$249,113 in the general fund, \$76,836 in the debt service fund and \$7,916 in a nonmajor capital projects 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.

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	\$ 130,716,290	89.20	\$ 134,256,160	91.11
Public utility personal	6,664,910	4.55	6,374,840	4.33
Tangible personal property	<u>9,165,090</u>	<u>6.25</u>	<u>6,716,080</u>	<u>4.56</u>
Total	<u>\$ 146,546,290</u>	<u>100.00</u>	<u>\$ 147,347,080</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$42.80		\$42.80	
Permanent Improvement	0.75		0.75	
Debt Service	5.50		5.50	

NOTE 7 - SCHOOL DISTRICT INCOME TAX

During 2003, voters of the District passed a renewal of the 3/4% income tax, effective for five years. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal 2007, credited to the general fund, was \$1,061,536.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts, accrued interest, intergovernmental grants and entitlements, and amounts due from component units. 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:

Governmental Activities:

Taxes	\$ 6,285,243
Account	7,843
Intergovernmental	18,843,744
Accrued interest	22,863
Due from component units	<u>126,706</u>
Total	<u>\$ 25,286,399</u>

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

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

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 26,121	\$ -	\$ -	\$ 26,121
Construction in progress	<u>-</u>	<u>482,867</u>	<u>-</u>	<u>482,867</u>
Total capital assets, not being depreciated	<u>26,121</u>	<u>482,867</u>	<u>-</u>	<u>508,988</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	349,214	11,823	(240,678)	120,359
Buildings and improvements	14,389,825	26,500	-	14,416,325
Furniture and equipment	1,414,414	40,440	-	1,454,854
Vehicles	<u>782,323</u>	<u>66,500</u>	<u>-</u>	<u>848,823</u>
Total capital assets, being depreciated	<u>16,935,776</u>	<u>145,263</u>	<u>(240,678)</u>	<u>16,840,361</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(231,610)	(640)	126,356	(105,894)
Buildings and improvements	(2,436,503)	(209,437)	-	(2,645,940)
Furniture and equipment	(718,974)	(97,574)	-	(816,548)
Vehicles	<u>(591,791)</u>	<u>(56,347)</u>	<u>-</u>	<u>(648,138)</u>
Total accumulated depreciation	<u>(3,978,878)</u>	<u>(363,998)</u>	<u>126,356</u>	<u>(4,216,520)</u>
Governmental activities capital assets, net	<u>\$ 12,983,019</u>	<u>\$ 264,132</u>	<u>\$ (114,322)</u>	<u>\$ 13,132,829</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 246,746
Special	2,425
Vocational	9,059
<u>Support Services:</u>	
Pupil	1,624
Instructional staff	7,295
Administration	4,912
Operations and maintenance	12,272
Pupil transportation	59,222
Extracurricular activities	8,306
Food service operation	<u>12,137</u>
Total depreciation expense	<u>\$ 363,998</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

A. Capital Lease Obligation

During a prior fiscal year, the District entered into a capitalized lease for copier equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as regular instruction function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$31,040. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$21,728, leaving a current book value of \$9,312. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$6,059 by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Copiers</u>
2008	\$ 7,088
2009	7,089
2010	<u>7,089</u>
Total minimum lease payments	21,266
Less: amount representing interest	<u>(1,594)</u>
Total	<u>\$ 19,672</u>

B. Lease Purchase Agreement

On January 18, 2007, the District entered into a lease-purchase for school facilities construction through the OASBO Expanded Asset Pooled Financing Program. US Bank has been designated as trustee for the agreement. The source of revenue to fund the principal and interest payments is general operating revenue of the District. Construction in progress in the amount of \$263,166 has been capitalized for the amount of the lease purchase expended on construction but not completed as of June 30, 2007.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a summary of the District's future minimum annual payments to termination of the lease-purchase agreement:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2008	\$ 83,830
2009	83,713
2010	83,549
2011	84,314
2012	84,008
2013 - 2017	419,306
2018 - 2022	416,456
2023 - 2027	414,777
2028 - 2032	414,058
2033 - 2035	<u>237,722</u>
 Total	 2,321,733
Less: interest	<u>(1,029,733)</u>
Present value	<u>\$ 1,292,000</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding			Balance Outstanding	Amounts Due in
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>One Year</u>
Governmental Activities:					
General obligation bonds:					
Series 1998, library various	\$ 1,075,000	\$ -	\$ (60,000)	\$ 1,015,000	\$ 65,000
Series 2000, improvement, 4.82%	1,290,000	-	(235,000)	1,055,000	245,000
Series 2000, capital appreciation bonds	9,986	-	-	9,986	-
Series 2000, accreted interest	408,434	23,435	-	431,869	-
Series 2005, refunding bonds	6,305,000	-	(35,000)	6,270,000	35,000
Series 2005, capital appreciation bonds	325,000	-	-	325,000	-
Series 2005, accreted interest	26,032	41,061	-	67,093	-
Total G.O. bonds	<u>9,439,452</u>	<u>64,496</u>	<u>(330,000)</u>	<u>9,173,948</u>	<u>345,000</u>
Other obligations:					
Lease purchase agreement	-	1,292,000	-	1,292,000	23,000
Capital lease obligation	25,731	-	(6,059)	19,672	6,302
Compensated absences	814,970	39,500	(262,471)	591,999	73,179
Total other obligations	<u>840,701</u>	<u>1,331,500</u>	<u>(268,530)</u>	<u>1,903,671</u>	<u>102,481</u>
Total long-term obligations, governmental activities	<u>\$ 10,280,153</u>	<u>\$ 1,395,996</u>	<u>\$ (598,530)</u>	<u>11,077,619</u>	<u>\$ 447,481</u>
Unamortized premium on refunding bonds				482,973	
Deferred charges				<u>(346,672)</u>	
Total long-term obligations				<u>\$ 11,213,920</u>	

Compensated Absences: Compensated absences will be paid from the fund which employee salaries are paid, which are the general and food service funds.

Capital Lease Obligation: The District issued a capital lease agreement during a prior fiscal year. See Note 10 for the capital lease.

Library Bonds Series 1998: The library bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted as long-term liabilities. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund. The source of payment is derived from a .80 mill bonded debt (library) tax levy.

Lease Purchase Agreement: During fiscal year 2007, the District entered a lease purchase agreement for \$1,292,000 for facility construction. See Note 10 for the lease purchase.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

School Facilities Improvement Bonds Series 2000: On September 26, 2000, the District issued \$6,999,986 in general obligation bonds (Series 2000, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted as long-term liability. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 4.70 (average) mill bonded debt tax levy.

During fiscal year 2006, the callable portion of the bonds, \$4,730,000, were advance refunded. The non-callable portion of the current interest bonds, \$1,290,000 remained as a liability at June 30, 2006. The capital appreciation bonds were not refunded and have a par value of \$9,986. The capital appreciation bonds mature December 1, 2014 and 2015 (effective interest 33.404% and 33.408%, respectively), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity of the capital appreciation bonds is \$680,000. Total accreted interest of \$431,869 has been included at June 30, 2007.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2010.

Refunding General Obligation Bonds Series 2005: On August 16, 2005, the District issued general obligation bonds (Series 2005 Refunding Bonds) to advance refund the callable portion of the Series 2000 Current Interest General Obligation Bonds (principal \$4,730,000; interest rate 5.0-5.375%). The issuance proceeds of \$5,104,999 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The proceeds of \$2,000,000 repaid bond anticipation notes which matured.

The refunding issue is comprised of both current interest bonds, par value \$6,305,000 and capital appreciation bonds, par value \$325,000. The average interest rate on the current interest bonds is 6.0%. The capital appreciation bonds mature December 1, 2013 (effective interest 6.203%) and December 1, 2016 (effective interest rate of 7.0%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity of the capital appreciation bonds was \$930,000. Total accreted interest of \$67,093 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$374,999. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

Year Ending June 30	Library Bonds - Series 1998		
	Principal	Interest	Total
2008	\$ 65,000	\$ 47,648	\$ 112,648
2009	65,000	44,836	109,836
2010	70,000	41,883	111,883
2011	75,000	38,486	113,486
2012	75,000	34,774	109,774
2013 - 2017	450,000	111,377	561,377
2018 - 2019	215,000	10,767	225,767
Total	<u>\$ 1,015,000</u>	<u>\$ 329,771</u>	<u>\$ 1,344,771</u>

Year Ending June 30	Current Interest Bonds - Series 2000			Capital Appreciation Bonds - 2000		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 245,000	\$ 45,536	\$ 290,536	\$ -	\$ -	\$ -
2009	255,000	33,848	288,848	-	-	-
2010	270,000	20,767	290,767	-	-	-
2011	285,000	6,640	291,640	-	-	-
2012	-	-	-	-	-	-
2013 - 2016	-	-	-	9,986	670,014	680,000
Total	<u>\$ 1,055,000</u>	<u>\$ 106,791</u>	<u>\$ 1,161,791</u>	<u>\$ 9,986</u>	<u>\$ 670,014</u>	<u>\$ 680,000</u>

Year Ending June 30	Current Interest Bonds - Series 2005			Capital Appreciation Bonds - 2005		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 35,000	\$ 269,781	\$ 304,781	\$ -	\$ -	\$ -
2009	40,000	268,606	308,606	-	-	-
2010	60,000	266,981	326,981	-	-	-
2011	75,000	264,787	339,787	-	-	-
2012	395,000	253,693	648,693	-	-	-
2013 - 2017	700,000	1,089,250	1,789,250	325,000	605,000	930,000
2018 - 2022	2,585,000	762,837	3,347,837	-	-	-
2023 - 2027	2,090,000	214,142	2,304,142	-	-	-
2028 - 2029	290,000	12,170	302,170	-	-	-
Total	<u>\$ 6,270,000</u>	<u>\$ 3,402,247</u>	<u>\$ 9,672,247</u>	<u>\$ 325,000</u>	<u>\$ 605,000</u>	<u>\$ 930,000</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 11 - 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 use 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 \$4,851,004 (including available funds of \$1,056,136) and an unvoted debt margin of \$138,554.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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. During 2007 the District contracted with Indiana Insurance for general liability insurance and property insurance.

Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate. In addition, a \$2,000,000 per occurrence and aggregate policy was also underwritten by Indiana Insurance.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverages insure up to a blanket limit of \$28,085,616 with a \$1,000 deductible, commercial crime covers up to \$10,000.

Settled claims have not exceeded this commercial coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

B. Medical/Surgical, Dental and Vision Insurance

Medical/surgical, dental and vision insurance is offered to employees through a self-insurance internal service fund. The District has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$50,000 per covered person. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Self-Funded Plans, Inc. of Cleveland.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The District's independent third-party administrator has actuarially determined that \$144,522 is a good and sufficient provision for incurred but not reported claims as of June 30, 2007. This amount is non-discounted and is based upon historical claims experience.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$144,522 reported in the internal service fund at June 30, 2007, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 109,303	\$ 1,160,941	\$ (1,125,722)	\$ 144,522
2006	127,683	1,273,268	(1,291,648)	109,303

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. 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 Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 13 - 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, under Forms and Publications.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$121,528, \$128,282, and \$105,252, respectively; 42% has been contributed for fiscal year 2007 and 100% has been paid for fiscal years 2006 and 2005. \$70,351 is recorded as a liability within 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, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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.

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.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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 pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$671,679, \$687,109, and \$630,319, respectively; 84% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$105,709 is recorded as a liability in the respective funds. Combined Plans for fiscal 2006 were \$1,014 made by the District and \$18,037 made by 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 14 - 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 \$51,668 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.

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.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 \$56,509 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 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 15 - BUDGETARY BASIS OF ACCOUNTING

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 15 - 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:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 913,619
Net adjustment for revenue accruals	(591,628)
Net adjustment for expenditure accruals	804,416
Net adjustment for other sources/uses	(142,431)
Adjustment for encumbrances	<u>74,161</u>
GAAP basis	<u>\$ 1,058,137</u>

NOTE 16 - 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 \$25,495 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is party to various other legal proceedings. The District's management is of the opinion that the ultimate outcome of such litigation will not result in a material adverse affect on the District's financial position.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 17 - 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>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2006 (Restated)	\$ 51,932	\$ (9,601,605)
Current year set-aside requirement	198,466	198,466
Current year offsets	-	(284,323)
Qualifying disbursements	<u>(191,759)</u>	<u>(190,034)</u>
Total	<u>\$ 58,639</u>	<u>\$ (9,877,496)</u>
Cash balance carried forward to FY 2008	<u>\$ 58,639</u>	<u>\$ (9,601,605)</u>

Beginning balances have been restated to include additional textbook qualifying disbursements. Qualifying expenditures for capital acquisition exceeded the required set-aside amount and may be carried forward to future years.

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for textbooks	<u>\$ 58,639</u>
Total restricted assets	<u>\$ 58,639</u>

NOTE 18 - CONTRACTUAL COMMITMENTS

The District had the following contractual commitments outstanding at June 30, 2007:

<u>Project</u>	<u>Total Contract</u>	<u>Amount Paid By June 30, 2007</u>	<u>Remaining Commitment</u>
Track renovations	\$ 243,250	\$ (115,536)	\$ 127,714
OASBO lease-purchase	<u>1,292,000</u>	<u>(263,166)</u>	<u>1,028,834</u>
Total	<u>\$ 1,535,250</u>	<u>\$ (378,702)</u>	<u>\$ 1,156,548</u>

In addition to the amounts paid above, the District has recorded a contracts payable in the amount of \$104,165 for costs incurred prior to fiscal year-end on the track renovations. Costs incurred by fiscal year end (including contracts payable) have been recorded as construction-in-progress in the District's capital assets (see Note 9). These projects are expected to be completed in fiscal year 2008.

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL

The GOAL Digital Academy Community School (the "GDA") is a discretely presented component unit of the Mt. Gilead Exempted Village School District (the "District"). The District is the Sponsor of the GDA. The GDA issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)

A. Significant Accounting Policies

The basic financial statements (BFS) of the GDA 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 GDA also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The GDA has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The GDA's significant accounting policies are described below.

Basis of Accounting - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses in the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Measurement Focus and Basis of Accounting - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the GDA and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

Cash - All monies received by the GDA are deposited in a demand deposit account.

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The GDA maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The GDA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five to fifteen years.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the GDA. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the GDA. All revenues and expenses not meeting this definition are reported as non-operating.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Intergovernmental Revenue - The GDA currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all GDA deposits was \$331,309. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$100,000 of the School's bank balance of \$564,439 was covered by Federal Deposit Insurance Corporation, while \$464,439 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the GDA'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 GDA.

C. Capital Assets

A summary of capital assets at June 30, 2007 follows:

	Balance <u>6/30/06</u>	Additions	Disposals	Balance <u>6/30/07</u>
Furniture and equipment	\$ 208,012	\$ 75,599	\$ -	\$ 283,611
Less: accumulated depreciation	<u>(57,051)</u>	<u>(47,659)</u>	<u>-</u>	<u>(104,710)</u>
Net fixed assets	<u>\$ 150,961</u>	<u>\$ 27,940</u>	<u>\$ -</u>	<u>\$ 178,901</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)

D. Risk Management

The GDA 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. On February 1, 2003, the GDA was named as an additional insured party on Mt. Gilead Exempted Village School District's, the Sponsor, insurance policy with Indiana Insurance for general liability insurance and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both GDA and the Sponsor. Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

Settled claims have not exceeded commercial insurance coverage for fiscal year 2007 and 2006 and there has been no reduction in insurance coverage from the previous year.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$28,647,325 with a \$2,500 deductible, commercial crime covers up to \$25,000. The limits and deductibles stated above are in aggregate for both GDA and the sponsor.

E. Contingencies

Grants - The GDA received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the GDA at June 30, 2007.

State Foundation Funding - The Ohio Department of Education conducts review of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Center does not have any significant adjustments to state funding for fiscal year 2008, as a result of the reviews which have been completed.

Litigation - A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

F. Service Contract

The Mount Gilead Exempted Village School District and GDA entered into a service contract agreement. This agreement states that GDA will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuant to Ohio Revised Code Section 3317.11 as follows:

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)

1. Instructional services for all grade levels.
2. Collaboration for staff development programs for certified and non-certified staff.
3. Planning and consultative services for curriculum development.
4. Psychological services as needed for re-evaluations and initial multi-factored evaluations.
5. Fiscal services including payroll, retirement, and insurance.
6. Student services including E.M.I.S., Nursing, Speech, Guidance, and Therapy.
7. Classroom space and administrative services.
8. Custodial services.
9. Supervision/Director services.
10. Technology support.

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both GDA and the Mount Gilead Exempted Village School District.

G. Contract services

For fiscal year ended June 30, 2007, contract services expenses were as follows:

Purchased services/administrative services	\$ 600,121
Utility expenses	38,062
Travel and meetings	10,001
Other purchased services	<u>128,738</u>
Total contract services	<u>\$ 776,922</u>

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District as described in Note 7.

The GDA has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the GDA of the obligation for remitting pension contributions. The retirement systems consider the GDA as the Employer-of-Record and the GDA ultimately responsible for remitting contributions.

H. Related Party Transactions

The GDA is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The GDA and the Sponsor entered into a five-year sponsorship agreement on September 4, 2002, whereby terms of the sponsorship agreement were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the GDA's fiscal officer.

In the fiscal year 2007, payments were made by the GDA to the Sponsor totaling \$202,587. These represent payments for reimbursements for services provided by the Sponsor to the GDA. Also, at fiscal year end, the GDA had an outstanding payable to the Sponsor, in the amount of \$76,032, reported in the statement of net assets as "due to primary government".

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 19 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)

I. Subsequent event

Effective July 1, 2006, Lorraine Earnest became the Treasurer of the GDA. Effective July 31, 2007, Steve Earnest was appointed Treasurer upon the resignation of Lorraine Earnest.

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL

The Tomorrow Center Community School (the "Center") is a discretely presented component unit of the Mt. Gilead Exempted Village School District (the "District"). The District is the Sponsor of the GDA. The GDA issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That may be obtained by writing to Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

A. Significant Accounting Policies

The basic financial statements of the Center 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 Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Center has elected not to apply FASB Statement and Interpretations issued after November 30, 1989. The Center's significant accounting policies are described below.

Basis of Accounting - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses in the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Measurement Focus and Basis of Accounting - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

Cash - All monies received by the Center are deposited in a demand deposit account.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five to fifteen years.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the Center. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Center. All revenues and expenses not meeting this definition are reported as non-operating.

Prepayments - Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Intergovernmental Revenue - The Center currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, the Electronic Management Information System Grant and the Ohio School Net Professional Development Grant, Title VI, Title V and Drug Free Schools grants. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all Center deposits was \$203,868. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2007, \$100,000 of the School’s bank balance of \$315,772 was covered by the Federal Deposit Insurance Corporation, while \$215,772 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Center’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 Center.

C. Capital Assets

A summary of capital assets at June 30, 2007 follows:

	<u>Balance</u> <u>6/30/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/07</u>
Furniture and equipment	\$ 198,009	\$ 61,561	\$ -	\$ 259,570
Less: accumulated depreciation	<u>(54,782)</u>	<u>(32,456)</u>	<u>-</u>	<u>(87,238)</u>
Net capital assets	<u>\$ 143,227</u>	<u>\$ 29,105</u>	<u>\$ -</u>	<u>\$ 172,332</u>

D. Purchased Services

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Purchased instructional services	\$ 307,619
Purchased administrative services	147,031
Utility expenses	43,540
Other purchased services	<u>74,352</u>
Total	<u>\$ 572,542</u>

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)

E. Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, the Center has obtained liability insurance from Indiana Insurance Company. A summary of the Centers insurance coverage follows:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$1,000,000	\$ 0
Annual aggregate	2,000,000	0
Commercial umbrella:		
Each occurrence	1,000,000	0
Annual aggregate	1,000,000	0
Employee benefits liability:		
Each occurrence	1,000,000	3,000
Annual aggregate	3,000,000	3,000
School leader's errors and omissions:		
Each occurrence	1,000,000	2,500
Annual aggregate	1,000,000	2,500
School law enforcement liability:		
Each occurrence	500,000	2,500
Annual aggregate	500,000	2,500
Property	28,647,325	2,500
Ohio employer's liability:		
Each occurrence	1,000,000	0
Annual aggregate	2,000,000	0

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2006.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)

F. Contingencies

Grants - The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2007. Management is unaware of any material pending claims that may affect the fiscal 2008 school year.

Litigation - A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

State Foundation Funding - The Ohio Department of Education conducts review of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The Center does not have any significant adjustments to state funding for fiscal year 2008, as a result of the reviews which have been completed.

G. Service Contract

The Mount Gilead Exempted Village School District and the Center has entered into a service contract agreement. This agreement states that the Center will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuant to Ohio Revised Code Section 3317.11 as follows:

1. Instructional services for the intensive day treatment program
2. Instructional services for the High School S.E.D. program
3. Instructional services for the Recovery/Alcohol program
4. Instructional services for the Suspension Alternative program
5. Collaboration for staff development programs for certified and non-certified staff
6. Planning and consultative services for curriculum development
7. Psychological services as needed for re-evaluations and initial multi-factored evaluations
8. Fiscal services including payroll, retirement, and insurance
9. Student services including E.M.I.S., Nursing, Speech, Guidance, and Therapy
10. Classroom space and administrative services
11. Custodial services
12. Food services
13. Transportation services
14. Supervision/Director services
15. Office Management services
16. Classroom aides for instructional areas
17. Technology support

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

NOTE 20 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both the Center and the Mount Gilead Exempted Village School District.

The Center has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Center of the obligation for remitting pension contributions. The retirement systems consider the Center as the Employer-of-Record and the Center ultimately responsible for remitting contributions.

H. Related Party

The Center is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The Center and the Sponsor entered into a 5-year sponsorship agreement on October 30, 2002, whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Center's fiscal officer.

In fiscal year 2007, payments were made by the Center to the Sponsor totaling \$466,543. These represent payments for reimbursements for services provided by the Sponsor to the Center. Also, at fiscal year end, the Center had an outstanding payable to the Sponsor in the amount of \$50,674.

SUPPLEMENTARY DATA

**MOUNT GILEAD EXEMPTED VILLAGE 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
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
(B) Food Donation	10.550	N/A	\$ -	\$ 15,863	\$ -	\$ 15,863
Total Food Donation			-	15,863	-	15,863
Nutrition Cluster:						
(C) (D) School Breakfast Program	10.553	045534-05PU-2007	11,153		11,153	
Total School Breakfast Program			11,153		11,153	
(C) (D) National School Lunch Program	10.555	045534-LLP4-2006	33,782		33,782	
(C) (D) National School Lunch Program	10.555	045534-LLP4-2007	108,627		108,627	
Total National School Lunch Program			142,409		142,409	
Total Nutrition Cluster			153,562		153,562	
Total U.S. Department of Agriculture			153,562	15,863	153,562	15,863
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
(E) Title I Grants to Local Educational Agencies	84.010	045534-C1S1-2006	(726)		4,950	
Title I Grants to Local Educational Agencies	84.010	045534-C1S1-2007	199,532		198,390	
Total Title I Grants to Local Educational Agencies			198,806		203,340	
(F) Special Education Grants to States	84.027	045534-6BSF-2006	14,807		13,403	
Special Education Grants to States	84.027	045534-6BSF-2007	194,640		209,142	
Special Education Grants to States	84.027	045534-6BSD-2007	52,776		47,491	
Total Special Education Grants to States			262,223		270,036	
(G) Safe and Drug-Free Schools and Communities State Grants	84.186	045534-DRS1-2006	3,372		-	
Safe and Drug-Free Schools and Communities State Grants	84.186	045534-DRS1-2007	4,280		1,270	
Total Safe and Drug-Free Schools and Communities State Grants			7,652		1,270	
State Grants for Innovative Programs	84.298	045534-C2S1-2007	2,097		5,097	
Total State Grants for Innovative Programs			2,097		5,097	
Education Technology State Grants	84.318	045534-TJS1-2007	2,276		2,158	
Total Education Technology State Grants			2,276		2,158	
Improving Teacher Quality State Grants	84.367	045534-TRS1-2007	71,995		71,995	
Total Improving Teacher Quality State Grants			71,995		71,995	
Total U.S. Department of Education			545,049		553,896	
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Learn and Serve America School and Community Based Programs	94.004	045534-SVSI-2006	5,063		-	
Learn and Serve America School and Community Based Programs	94.004	045534-SVSI-2007	-		5,956	
Total U.S. Corporation for National and Community Service			5,063		5,956	
Total Federal Financial Assistance			\$ 703,674	\$ 15,863	\$ 713,414	\$ 15,863

- (A) This schedule was prepared on the cash basis of accounting.
- (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (E) Amount of \$726 transferred to fiscal year 2007 grant year based on Ohio Department of Education administrative action.
- (F) Amount of \$11,666 transferred to fiscal year 2007 grant year based on Ohio Department of Education administrative action.
- (G) Amount of \$200 transferred to fiscal year 2007 grant year based on Ohio Department of Education administrative action.

Note 1: The Mount Gilead Exempted Village School District has excluded federal financial assistance reported for its component units - the Tomorrow Center Community School and the GOAL Digital Academy Community School.



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**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
Mount Gilead Exempted Village School District
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Morrow County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Mount Gilead Exempted Village School District's basic financial statements and have issued our report thereon dated December 18, 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village School District's financial statements that is more than inconsequential will not be prevented or detected by Mount Gilead Exempted Village 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 Mount Gilead Exempted Village School District's internal control.

Board of Education
Mount Gilead Exempted Village School District

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 the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Gilead Exempted Village 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items MGEVSD-2007-001 and MGEVSD-2007-002.

We noted certain matters that we reported to the management of Mount Gilead Exempted Village School District in a separate letter dated December 18, 2007.

Mount Gilead Exempted Village School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Mount Gilead Exempted Village School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management and Board of Education of Mount Gilead Exempted Village 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.



Julian & Grube, Inc.
December 18, 2007



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**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
Mount Gilead Exempted Village School District
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

Compliance

We have audited the compliance of Mount Gilead Exempted Village School District, Morrow County, Ohio, 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. Mount Gilead Exempted Village School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Mount Gilead Exempted Village School District's management. Our responsibility is to express an opinion on Mount Gilead Exempted Village School District's compliance based on our audit.

Mount Gilead Exempted Village School District's basic financial statements include the operations of the Tomorrow Center Community School and GOAL Digital Academy Community School, discretely presented component units of Mount Gilead Exempted Village School District. The Tomorrow Center Community School received \$162,290 and expended \$171,127 in federal awards during fiscal year 2007 that are not included in the Schedule of Receipts and Expenditures of Federal Awards for Mount Gilead Exempted Village School District for the fiscal year ended June 30, 2007. GOAL Digital Academy Community School received \$54,277 and expended \$42,514 in federal awards during fiscal year 2007 that are not included in the Schedule of Receipts and Expenditures of Federal Awards for Mount Gilead Exempted Village School District for the fiscal year ended June 30, 2007. Our audit of federal awards, described below, did not include the operations of the Tomorrow Center Community School and GOAL Digital Academy Community School. These component units expended less than \$500,000 for the fiscal year ended June 30, 2007 and thus were not required to have an audit of their Federal Awards in accordance with OMB Circular A-133.

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 Mount Gilead Exempted Village School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mount Gilead Exempted Village School District's compliance with those requirements.

Board of Education
Mount Gilead Exempted Village School District

In our opinion, Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village School District's internal control over compliance.

A control deficiency in Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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 Mount Gilead Exempted Village 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.



Julian & Grube, Inc.
December 18, 2007

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS		
<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>	Yes
<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 Program (listed):</i>	<i>Special Education - Grants to States: CFDA #84.027</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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-MGEVSD-001

Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.

Total appropriations exceeded total estimated resources at June 30, 2007 in the following funds:

<u>June 30, 2007</u> <u>Nonmajor Funds</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
IDEA, Part B - Special Education	\$ 287,011	\$ 272,485	\$ 14,526
Internal Service - Rotary Fund	552,000	487,956	64,044

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget throughout the year and at year end. If it is determined that estimated revenues will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a continual basis.

Client Response: The District is attempting to monitor its budget more closely and to submit additional amendments for estimated resources or reduce its appropriations as necessary.

Finding Number	2007-MGEVSD-002
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Ohio Revised Code Section 5705.36 in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the District Treasurer that revenue to be collected will be greater or less than the amount in the last certified amended certificate.

The District did not request timely amended certificates throughout the year upon notice of increased or decreased resources.

The District is not properly certifying its most current estimated resources to the appropriate authorities and thus causing appropriations to exceed estimated resources, throughout the year and at fiscal year end.

We recommend that the District review its available resources versus its appropriations throughout the year and file amended certificates when necessary. This will facilitate the District's appropriation process.

Client Response: The District is attempting to monitor fiscal budget more closely and to submit additional amendments for estimated resources more frequently throughout the fiscal year and at fiscal year end.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-MGEVSD-001	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be used only for the purposes for which such fund is established.	Partially	Now located in Management Letter.



Mary Taylor, CPA
Auditor of State

MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**