



Dave Yost • Auditor of State

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

TABLE OF CONTENTS

| TITLE | PAGE |
|---|------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 15 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities..... | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund | 19 |
| Statement of Fiduciary Net Assets - Fiduciary Funds | 20 |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Funds | 21 |
| Notes to the Basic Financial Statements | 23 |
| Schedule of Federal Awards Receipts and Expenditures | 51 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures | 52 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 53 |
| Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> | 55 |
| Schedule of Findings and Questioned Costs..... | 57 |
| Corrective Action Plan..... | 61 |
| Independent Accountants' Report on Applying Agreed Upon Procedure..... | 63 |

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Berlin-Milan Local School District
Erie County
140 South Main Street
Milan, Ohio 44846-9770

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the District adopted Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The accompanying schedule of federal awards receipts and expenditures provides additional information required by the 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. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 20, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The management's discussion and analysis of the Berlin-Milan Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. 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 fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$655,182 which represents a 7.38% increase from 2010.
- General revenues accounted for \$14,135,704 in revenue or 81.22% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,268,891 or 18.78% of total revenues of \$17,404,595.
- The District had \$16,739,413 in expenses related to governmental activities; only \$3,268,891 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,135,704 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$14,208,976 in revenues and other financing sources and \$14,005,401 in expenditures. During fiscal year 2011, the general fund's fund balance increased \$198,427 from a restated fund balance of \$3,526,998 to \$3,725,425.
- The District's permanent improvement fund had \$817,037 in revenues and \$344,485 in expenditures. During fiscal year 2011, the permanent improvement fund's fund balance increased \$472,552 from \$1,391,961 to \$1,864,513.

Using the Basic Financial Statements

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 2011?" 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.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. 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.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

| | Net Assets | |
|----------------------------|------------------------------------|------------------------------------|
| | Governmental Activities 2011 | Governmental Activities 2010 |
| | <u>2011</u> | <u>2010</u> |
| <u>Assets</u> | | |
| Current assets | \$ 14,149,585 | \$ 14,684,123 |
| Capital assets, net | <u>3,996,660</u> | <u>3,850,526</u> |
| Total assets | <u>18,146,245</u> | <u>18,534,649</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 7,699,924 | 8,754,999 |
| Long-term liabilities | <u>769,935</u> | <u>768,446</u> |
| Total liabilities | <u>8,469,859</u> | <u>9,523,445</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets | 3,863,827 | 3,850,526 |
| Restricted | 2,299,608 | 1,856,189 |
| Unrestricted | <u>3,512,951</u> | <u>3,304,489</u> |
| Total net assets | <u>\$ 9,676,386</u> | <u>\$ 9,011,204</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$9,676,386. At year-end, unrestricted net assets were \$3,512,951.

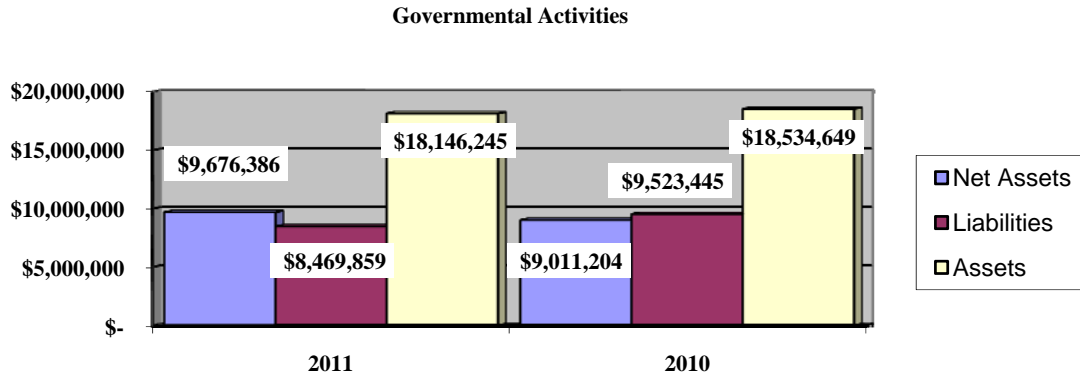
At year-end, capital assets represented 22.02% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,863,827. These capital assets are used to provide services to the students and are not available for future spending.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

A portion of the District's net assets, \$2,299,608, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,512,951 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's governmental activities assets, liabilities and net assets for June 30, 2011 and 2010:



The table below shows the change in net assets for fiscal years 2011 and 2010.

Change in Net Assets

| | Governmental Activities 2011 | Governmental Activities 2010 |
|------------------------------------|------------------------------------|------------------------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services and sales | \$ 1,224,674 | \$ 1,284,508 |
| Operating grants and contributions | 2,044,217 | 1,667,786 |
| General revenues: | | |
| Taxes | 6,415,796 | 6,190,282 |
| Grants and entitlements | 7,695,054 | 7,837,500 |
| Investment earnings | 19,582 | 43,920 |
| Other | 5,272 | 22,098 |
| Total revenues | 17,404,595 | 17,046,094 |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Change in Net Assets

| | Governmental Activities <u>2011</u> | Governmental Activities <u>2010</u> |
|---|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | 6,912,881 | 7,274,829 |
| Special | 2,445,820 | 2,646,281 |
| Vocational | 74,935 | 69,046 |
| Other | 724,572 | 526,695 |
| Support services: | | |
| Pupil | 957,325 | 939,981 |
| Instructional staff | 375,746 | 364,351 |
| Board of education | 46,207 | 34,622 |
| Administration | 1,319,392 | 1,268,200 |
| Fiscal | 319,206 | 303,023 |
| Operations and maintenance | 1,051,110 | 941,528 |
| Pupil transportation | 853,887 | 706,079 |
| Central | 151,604 | 149,935 |
| Operations of non-instructional services: | | |
| Food service operations | 654,124 | 630,491 |
| Other non-instructional services | 155,389 | 114,897 |
| Extracurricular activities | 693,130 | 754,075 |
| Interest and fiscal charges | 4,085 | - |
| Total expenses | <u>16,739,413</u> | <u>16,724,033</u> |
| Change in net assets | 665,182 | 322,061 |
| Net assets at beginning of year | <u>9,011,204</u> | <u>8,689,143</u> |
| Net assets at end of year | <u>\$ 9,676,386</u> | <u>\$ 9,011,204</u> |

Governmental Activities

Net assets of the District's governmental activities increased \$665,182, due to an increase in operating grants and contributions. Total governmental expenses of \$16,739,413 were offset by program revenues of \$3,268,891 and general revenues of \$14,135,704. Program revenues supported 19.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 81.08% of total governmental revenue. Real estate property is reappraised every six years

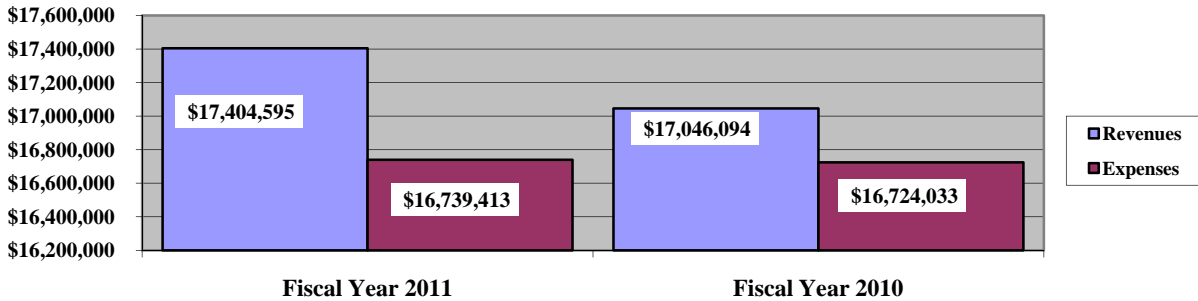
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,158,208 or 60.68% of total governmental expenses for fiscal year 2011.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities - Revenues and Expenses



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.

| | Governmental Activities | | | |
|--|--------------------------------|------------------------------|--------------------------------|------------------------------|
| | Total Cost of Services 2011 | Net Cost of Services 2011 | Total Cost of Services 2010 | Net Cost of Services 2010 |
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | 6,912,881 | \$ 5,982,748 | 7,274,829 | \$ 6,798,112 |
| Special | 2,445,820 | 2,038,514 | 2,646,281 | 2,160,380 |
| Vocational | 74,935 | 63,039 | 69,046 | 57,239 |
| Other | 724,572 | 708,964 | 526,695 | 514,698 |
| Support services: | | | | |
| Pupil | 957,325 | 566,330 | 939,981 | 513,109 |
| Instructional staff | 375,746 | 312,716 | 364,351 | 336,691 |
| Board of education | 46,207 | 35,055 | 34,622 | 34,622 |
| Administration | 1,319,392 | 1,255,758 | 1,268,200 | 1,221,196 |
| Fiscal | 319,206 | 312,206 | 303,023 | 298,023 |
| Operations and maintenance | 1,051,110 | 867,338 | 941,528 | 621,857 |
| Pupil transportation | 853,887 | 781,363 | 706,079 | 667,377 |
| Central | 151,604 | 151,604 | 149,935 | 149,935 |
| Operations of non-instructional services | | | | |
| Food service operations | 654,124 | 30,091 | 630,491 | 5,562 |
| Other non-instructional services | 155,389 | 54,918 | 114,897 | 65,008 |
| Extracurricular activities | 693,130 | 305,793 | 754,075 | 327,930 |
| Interest and fiscal charges | 4,085 | 4,085 | - | - |
| Total expenses | \$ 16,739,413 | \$ 13,470,522 | \$ 16,724,033 | \$ 13,771,739 |

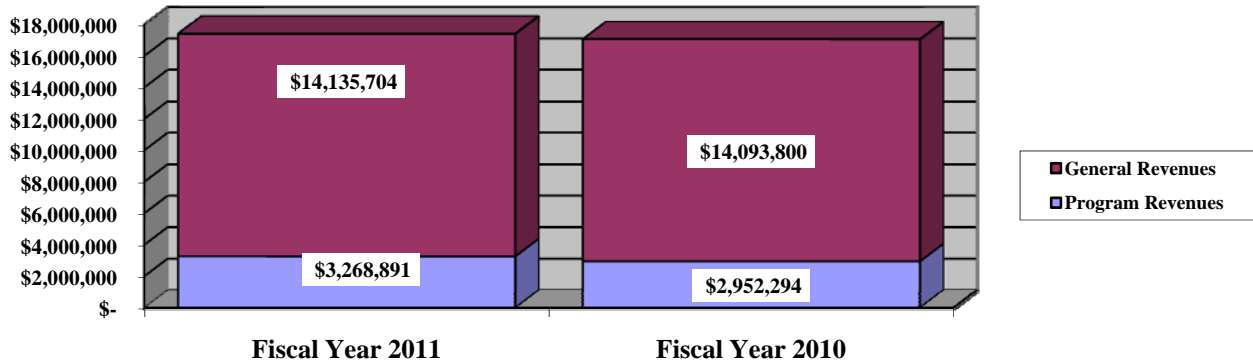
The dependence upon tax and other general revenues for governmental activities is apparent, 86.56% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.47%.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,882,214 which is higher than last year's total of \$5,240,740. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated June 30, 2010 fund balances as described in Note 3.B. for fund reclassifications associated with the implementation of GASB Statement No. 54.

| | Fund Balance <u>June 30, 2011</u> | Restated Fund Balance <u>June 30, 2010</u> | Increase (Decrease) |
|-----------------------|--------------------------------------|--|------------------------|
| General | \$ 3,725,425 | \$ 3,526,998 | \$ 198,427 |
| Permanent Improvement | 1,864,513 | 1,391,961 | 472,552 |
| Other Governmental | <u>292,276</u> | <u>321,781</u> | <u>(29,505)</u> |
| Total | <u>\$ 5,882,214</u> | <u>\$ 5,240,740</u> | <u>\$ 641,474</u> |

An analysis of the general fund revenues and expenditures is provided in the section below.

General Fund

The District's general fund balance increased \$198,427.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

| | <u>2011</u> | <u>Restated</u> <u>2010</u> | <u>Percentage</u> |
|---|----------------------|--------------------------------|-------------------|
| | <u>Amount</u> | <u>Amount</u> | <u>Change</u> |
| <u>Revenues</u> | | | |
| Taxes | \$ 5,929,209 | \$ 5,568,603 | 6.48 % |
| Tuition | 391,489 | 390,014 | 0.38 % |
| Earnings on investments | 20,574 | 69,238 | (70.29) % |
| Intergovernmental | 7,515,852 | 7,732,473 | (2.80) % |
| Other revenues | <u>197,229</u> | <u>245,789</u> | (19.76) % |
| Total | <u>\$ 14,054,353</u> | <u>\$ 14,006,117</u> | 0.34 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 9,190,693 | \$ 9,587,533 | (4.14) % |
| Support services | 4,107,388 | 3,813,135 | 7.72 % |
| Operation of non-instructional services | 63,852 | 72,513 | (11.94) % |
| Extracurricular activities | 462,970 | 495,603 | (6.58) % |
| Capital outlay | 154,623 | - | 100.00 % |
| Debt service | <u>25,875</u> | <u>-</u> | 100.00 % |
| Total | <u>\$ 14,005,401</u> | <u>\$ 13,968,784</u> | 0.26 % |

Interest revenues decreased due to a decline on the interest rates on the District's investments during the fiscal year. Overall revenues remained relatively unchanged from 2010 to 2011. The decrease in instructional expenditures is primarily due to the District using the federal Education Jobs grant to pay salaries and benefits expenditures that were incurred by the general fund in 2010. The increase in capital outlay and debt service payments is due to a new capital lease entered into during fiscal year 2011 for copier equipment.

Permanent Improvement Fund

The District's permanent improvement fund balance increased \$472,552. The increase in fund balance can be primarily attributed to an increase in property tax revenue, and a decrease in regular expenditures.

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.

For the general fund, both the original and final budgeted revenues and other financing sources were \$13,327,864. Actual revenues and other financing sources for fiscal year 2011 was \$13,830,360. This represents a \$502,496 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$15,326,329 were decreased to \$14,937,329 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$14,331,516, which was \$605,813 less than the final budget appropriations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$3,996,660 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2011 balances compared to June 30, 2010:

| Capital Assets at June 30 (Net of Depreciation) | | |
|--|----------------------------|----------------------------|
| <u>Governmental Activities</u> | | |
| | <u>2011</u> | <u>2010</u> |
| Land | \$ 469,195 | \$ 469,195 |
| Land improvements | 51,978 | 57,310 |
| Building and improvements | 1,748,671 | 1,661,929 |
| Furniture and equipment | 1,204,548 | 1,107,594 |
| Vehicles | <u>522,268</u> | <u>554,498</u> |
| Total | <u>\$ 3,996,660</u> | <u>\$ 3,850,526</u> |

Total additions to capital assets for 2011 were \$621,442. The District recorded \$450,866 in depreciation expense for fiscal year 2011 and \$24,442 in disposals, net of accumulated depreciation. The overall change in capital assets was an increase of \$146,134.

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

Debt Administration

At June 30, 2011, the District had \$132,833 in capital lease obligations. Of this total, \$29,031 is due within one year and \$103,802 is due in more than one year. See Note 10 to the basic financial statements for additional information on the District's long-term obligations.

Current Financial Related Activities

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

In the area of real estate taxes, the effective tax rate for residential and agricultural property in the Edison Local School District is at the 20 mil floor. The District is not anticipating any growth in State revenue and is projecting a cut in state funding for fiscal year 2012 and 2013. With the reduction of the tangible personal property reimbursements and the elimination of State Fiscal Stimulation Funds (SFSF) funds and electric deregulation reimbursements, the concern is that this funding change will have a profound negative financial impact on the District and ultimately the District's residential taxpayers.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

From fiscal years 2007-2010, the annual general fund revenues for the District have remained flat or decreased and the District anticipates receiving significantly less revenue in fiscal year 2012 due to the new state budget. Even with budget cuts and cost containment measures, annual general fund expenditures have exceeded annual general fund revenues for the past three years (fiscal year 2009, 2010, and 2011). This trend is expected to continue in fiscal year 2012 and beyond without additional revenue sources. The current cash balance will be utilized to cover the operating deficit projected for fiscal year 2012. The Board and Administration will continue to monitor these projections, updating them with pertinent information as it becomes available, and utilize these projections in the decision making process.

The communities of Berlin Heights and Milan have a long history of taking pride in their schools. The District has received an Excellent rating by the Ohio Department of Education for the past seven years. The Board, Administration, and Staff are committed to working with the community in order to maintain this excellent level of education in a safe, effective, and efficient manner.

Contacting the District's Financial Management

This financial report is designed to demonstrate the District's accountability for the money it receives and to provide a general overview of the district's finances to our community, creditors, and investors. For additional information about this report please contact Mrs. Nicole Spriggs, Treasurer, Berlin-Milan Local School District, 140 S. Main Street, Milan, Ohio 44846.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 6,556,500 |
| Receivables: | |
| Taxes | 7,391,547 |
| Accounts. | 11,421 |
| Intergovernmental | 128,400 |
| Accrued interest | 500 |
| Prepayments | 11,969 |
| Materials and supplies inventory. | 49,248 |
| Capital assets: | |
| Land | 469,195 |
| Depreciable capital assets, net. | 3,527,465 |
| Capital assets, net | 3,996,660 |
| Total assets. | 18,146,245 |
| Liabilities: | |
| Accounts payable. | 86,327 |
| Accrued wages and benefits | 1,279,422 |
| Pension obligation payable. | 332,873 |
| Intergovernmental payable | 77,534 |
| Unearned revenue | 5,923,768 |
| Long-term liabilities: | |
| Due within one year. | 46,500 |
| Due in more than one year. | 723,435 |
| Total liabilities | 8,469,859 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 3,863,827 |
| Restricted for: | |
| Capital projects | 1,888,043 |
| Locally funded programs | 28,803 |
| State funded programs. | 59,373 |
| Federally funded programs | 5,700 |
| Student activities | 66,406 |
| Other purposes | 251,283 |
| Unrestricted. | 3,512,951 |
| Total net assets | \$ 9,676,386 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|---|----------------------|--------------------------------------|--|--|
| Expenses | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 6,912,881 | \$ 397,105 | \$ 533,028 | \$ (5,982,748) |
| Special | 2,445,820 | 44,377 | 362,929 | (2,038,514) |
| Vocational | 74,935 | - | 11,896 | (63,039) |
| Other | 724,572 | - | 15,608 | (708,964) |
| Support services: | | | | |
| Pupil. | 957,325 | 30,803 | 360,192 | (566,330) |
| Instructional staff | 375,746 | 32 | 62,998 | (312,716) |
| Board of education | 46,207 | - | 11,152 | (35,055) |
| Administration. | 1,319,392 | 2,081 | 61,553 | (1,255,758) |
| Fiscal. | 319,206 | - | 7,000 | (312,206) |
| Operations and maintenance | 1,051,110 | 689 | 183,083 | (867,338) |
| Pupil transportation. | 853,887 | - | 72,524 | (781,363) |
| Central | 151,604 | - | - | (151,604) |
| Operation of non-instructional services: | | | | |
| Food service operations | 654,124 | 339,532 | 284,501 | (30,091) |
| Other non-instructional services | 155,389 | 36,177 | 64,294 | (54,918) |
| Extracurricular activities. | 693,130 | 373,878 | 13,459 | (305,793) |
| Interest and fiscal charges | 4,085 | - | - | (4,085) |
| Total governmental activities | <u>\$ 16,739,413</u> | <u>\$ 1,224,674</u> | <u>\$ 2,044,217</u> | <u>(13,470,522)</u> |
| General Revenues: | | | | |
| Property taxes levied for: | | | | |
| | | | | 5,838,770 |
| | | | | 577,026 |
| | | | | 7,695,054 |
| | | | | 19,582 |
| | | | | 5,272 |
| | | | | 14,135,704 |
| | | | | 665,182 |
| | | | | 9,011,204 |
| | | | | \$ 9,676,386 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents. | \$ 4,241,349 | \$ 1,813,978 | \$ 501,173 | \$ 6,556,500 |
| Receivables: | | | | |
| Taxes. | 6,765,017 | 626,530 | - | 7,391,547 |
| Accounts. | 11,074 | 68 | 279 | 11,421 |
| Intergovernmental. | 2,148 | - | 126,252 | 128,400 |
| Accrued interest. | 500 | - | - | 500 |
| Interfund loans. | 6,100 | - | - | 6,100 |
| Prepayments. | 11,635 | - | 334 | 11,969 |
| Materials and supplies inventory. | 18,428 | - | 30,820 | 49,248 |
| Total assets | <u>\$ 11,056,251</u> | <u>\$ 2,440,576</u> | <u>\$ 658,858</u> | <u>\$ 14,155,685</u> |
| Liabilities: | | | | |
| Accounts payable. | \$ 34,963 | \$ 47,723 | \$ 3,641 | \$ 86,327 |
| Accrued wages and benefits. | 1,101,569 | - | 177,853 | 1,279,422 |
| Interfund loans payable. | - | - | 6,100 | 6,100 |
| Pension obligation payable. | 286,371 | - | 46,502 | 332,873 |
| Intergovernmental payable. | 71,300 | - | 6,234 | 77,534 |
| Deferred revenue. | 417,665 | 23,530 | 126,252 | 567,447 |
| Unearned revenue. | 5,418,958 | 504,810 | - | 5,923,768 |
| Total liabilities. | <u>7,330,826</u> | <u>576,063</u> | <u>366,582</u> | <u>8,273,471</u> |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Materials and supplies inventory. | 18,428 | - | 30,820 | 49,248 |
| Prepays. | 11,635 | - | 334 | 11,969 |
| Unclaimed monies. | 360 | - | - | 360 |
| Restricted: | | | | |
| Capital improvements. | - | 1,864,513 | - | 1,864,513 |
| Food service operations. | - | - | 229,080 | 229,080 |
| Public school preschool. | - | - | 59,179 | 59,179 |
| Targeted academic assistance. | - | - | 3,035 | 3,035 |
| Extracurricular. | - | - | 66,072 | 66,072 |
| Other purposes. | - | - | 32,563 | 32,563 |
| Committed: | | | | |
| Student instruction. | 42,341 | - | - | 42,341 |
| Student and staff support. | 14,580 | - | - | 14,580 |
| Assigned: | | | | |
| Student instruction. | 102,690 | - | - | 102,690 |
| Student and staff support. | 193,649 | - | - | 193,649 |
| Public school support. | 57,574 | - | - | 57,574 |
| Other purposes. | 262 | - | - | 262 |
| Unassigned. | 3,283,906 | - | (128,807) | 3,155,099 |
| Total fund balances. | <u>3,725,425</u> | <u>1,864,513</u> | <u>292,276</u> | <u>5,882,214</u> |
| Total liabilities and fund balances. | <u>\$ 11,056,251</u> | <u>\$ 2,440,576</u> | <u>\$ 658,858</u> | <u>\$ 14,155,685</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

| | | |
|--|------------------|----------------------------|
| Total governmental fund balances | | \$ 5,882,214 |
| <i>Amounts reported for governmental activities on the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 3,996,660 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes receivable | \$ 438,547 | |
| Intergovernmental receivable | 128,400 | |
| Accrued interest receivable | <u>500</u> | |
| Total | | 567,447 |
| Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (637,102) | |
| Capital lease obligations | <u>(132,833)</u> | |
| Total | | <u>(769,935)</u> |
| Net assets of governmental activities | | <u><u>\$ 9,676,386</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|---|---|
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 5,929,209 | \$ 596,413 | \$ - | \$ 6,525,622 |
| Tuition | 391,489 | - | 75,462 | 466,951 |
| Charges for services | - | - | 339,303 | 339,303 |
| Earnings on investments | 20,574 | - | 229 | 20,803 |
| Extracurricular | 147,785 | - | 226,093 | 373,878 |
| Rentals | 689 | - | - | 689 |
| Classroom materials and fees | 43,315 | - | - | 43,315 |
| Contributions and donations | 310 | - | 9,361 | 9,671 |
| Other local revenues | 5,130 | 142 | 9,478 | 14,750 |
| Intergovernmental - Intermediate | - | - | 21,088 | 21,088 |
| Intergovernmental - State | 7,456,229 | 220,482 | 101,188 | 7,777,899 |
| Intergovernmental - Federal | 59,623 | - | 1,819,616 | 1,879,239 |
| Total revenue | 14,054,353 | 817,037 | 2,601,818 | 17,473,208 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,337,394 | 81,305 | 535,965 | 6,954,664 |
| Special | 2,069,400 | - | 353,656 | 2,423,056 |
| Vocational | 74,935 | - | - | 74,935 |
| Other | 708,964 | - | 15,608 | 724,572 |
| Support services: | | | | |
| Pupil | 560,707 | - | 390,422 | 951,129 |
| Instructional staff | 291,146 | - | 63,165 | 354,311 |
| Board of education | 35,055 | - | 11,152 | 46,207 |
| Administration | 1,257,706 | - | 62,997 | 1,320,703 |
| Fiscal | 294,761 | 12,957 | 5,781 | 313,499 |
| Operations and maintenance | 819,173 | - | 183,083 | 1,002,256 |
| Pupil transportation | 697,539 | 36,974 | 44,328 | 778,841 |
| Central | 151,301 | - | - | 151,301 |
| Operation of non-instructional services: | | | | |
| Food service operations | - | - | 641,860 | 641,860 |
| Operation of non-instructional | 63,852 | - | 91,537 | 155,389 |
| Extracurricular activities | 462,970 | - | 236,122 | 699,092 |
| Facilities acquisition and construction | - | 213,249 | - | 213,249 |
| Capital outlay | 154,623 | - | - | 154,623 |
| Debt service: | | | | |
| Principal retirement | 21,790 | - | - | 21,790 |
| Interest and fiscal charges | 4,085 | - | - | 4,085 |
| Total expenditures | 14,005,401 | 344,485 | 2,635,676 | 16,985,562 |
| Excess (deficiency) of revenues over (under) expenditures | 48,952 | 472,552 | (33,858) | 487,646 |
| Other financing sources: | | | | |
| Capital lease transaction | 154,623 | - | - | 154,623 |
| Total other financing sources | 154,623 | - | - | 154,623 |
| Net change in fund balances | 203,575 | 472,552 | (33,858) | 642,269 |
| Fund balances at beginning of year (restated). | 3,526,998 | 1,391,961 | 321,781 | 5,240,740 |
| Increase (decrease) in reserve for inventory. | (5,148) | - | 4,353 | (795) |
| Fund balances at end of year | \$ 3,725,425 | \$ 1,864,513 | \$ 292,276 | \$ 5,882,214 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | | |
|--|------------------|-----------------------|
| Net change in fund balances - total governmental funds | \$ | 642,269 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period. | | |
| Capital asset additions | \$ 621,442 | |
| Current year depreciation | <u>(450,866)</u> | |
| Total | | 170,576 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | |
| | | (24,442) |
| Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. | | |
| | | (795) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Taxes | (109,826) | |
| Intergovernmental revenue | 30,639 | |
| Earnings on investments | <u>(992)</u> | |
| Total | | (80,179) |
| Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. | | |
| | | 21,790 |
| Capital lease transactions are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net assets. | | |
| | | (154,623) |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | <u>90,586</u> |
| Change in net assets of governmental activities | \$ | <u>665,182</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 5,335,000 | \$ 5,335,000 | \$ 5,720,416 | \$ 385,416 |
| Tuition | 360,000 | 360,000 | 391,489 | 31,489 |
| Earnings on investments | 52,000 | 52,000 | 20,574 | (31,426) |
| Rentals | 601 | 601 | 689 | 88 |
| Extracurricular | 65,000 | 65,000 | 83,535 | 18,535 |
| Classroom materials and fees | 39,000 | 39,000 | 43,196 | 4,196 |
| Contributions and donations | - | - | 310 | 310 |
| Other local revenues | 10,000 | 10,000 | 4,774 | (5,226) |
| Intergovernmental - State | 7,393,000 | 7,393,000 | 7,456,229 | 63,229 |
| Intergovernmental - Federal | 40,000 | 40,000 | 59,623 | 19,623 |
| Total revenue | <u>13,294,601</u> | <u>13,294,601</u> | <u>13,780,835</u> | <u>486,234</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,595,896 | 11,207,446 | 6,603,944 | 4,603,502 |
| Special | 1,279,924 | 1,279,924 | 2,145,946 | (866,022) |
| Vocational | 16,515 | 16,515 | 78,622 | (62,107) |
| Other | 577,200 | 577,200 | 708,949 | (131,749) |
| Support services: | | | | |
| Pupil | 111,601 | 111,601 | 567,370 | (455,769) |
| Instructional staff | 46,622 | 46,072 | 296,659 | (250,587) |
| Board of education | 27,678 | 27,678 | 34,158 | (6,480) |
| Administration | 202,340 | 202,340 | 1,259,875 | (1,057,535) |
| Fiscal | 42,765 | 42,765 | 311,711 | (268,946) |
| Operations and maintenance | 677,433 | 677,433 | 965,778 | (288,345) |
| Pupil transportation | 287,850 | 287,850 | 737,159 | (449,309) |
| Central | 138,500 | 138,500 | 151,559 | (13,059) |
| Operation of non-instructional services | - | - | 63,706 | (63,706) |
| Extracurricular activities | 312,005 | 312,005 | 399,980 | (87,975) |
| Total expenditures | <u>15,316,329</u> | <u>14,927,329</u> | <u>14,325,416</u> | <u>601,913</u> |
| Excess of expenditures over revenues | <u>(2,021,728)</u> | <u>(1,632,728)</u> | <u>(544,581)</u> | <u>1,088,147</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 30,000 | 30,000 | 46,384 | 16,384 |
| Advances in | 263 | 263 | 263 | - |
| Advances (out) | (10,000) | (10,000) | (6,100) | 3,900 |
| Sale of capital assets | 3,000 | 3,000 | 2,878 | (122) |
| Total other financing sources (uses) | <u>23,263</u> | <u>23,263</u> | <u>43,425</u> | <u>20,162</u> |
| Net change in fund balance | (1,998,465) | (1,609,465) | (501,156) | 1,108,309 |
| Fund balance at beginning of year (restated). | 3,963,319 | 3,963,319 | 3,963,319 | - |
| Prior year encumbrances appropriated | 341,882 | 341,882 | 341,882 | - |
| Fund balance at end of year | <u>\$ 2,306,736</u> | <u>\$ 2,695,736</u> | <u>\$ 3,804,045</u> | <u>\$ 1,108,309</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

| | Private Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Current assets: | | |
| Equity in pooled cash and cash equivalents | \$ 98,440 | \$ 55,684 |
| Receivables: | | |
| Taxes | | 316,047 |
| Accounts | - | 139 |
| Accrued interest. | 126 | - |
| Total assets. | 98,566 | \$ 371,870 |
| Liabilities: | | |
| Intergovernmental payable | - | \$ 316,047 |
| Due to students. | - | 55,823 |
| Total liabilities | - | \$ 371,870 |
| Net assets: | | |
| Held in trust for scholarships | 98,566 | |
| Total net assets | \$ 98,566 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Private Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest. | \$ 713 |
| Total additions. | 713 |
| Deductions: | |
| Scholarships awarded | 4,799 |
| Change in net assets. | (4,086) |
| Net assets at beginning of year | 102,652 |
| Net assets at end of year. | \$ 98,566 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 328nd largest by enrollment among the 918 public school districts and community schools in the State of Ohio and is the 4th largest in Erie County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 80 non-certified and 114 certified employees to provide services to 1,607 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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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 and component units. 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, food 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of various school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The membership of the BACG consists of the Superintendent of each participating school district. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. During the fiscal year, the District paid BACG \$48,383 for services. Financial information can be obtained by contacting the North Point Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Career Center

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

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of various public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. During the fiscal year, the District paid NOECA \$43,745 for services. Financial information can be obtained from its fiscal agent, the North Point Educational Service Center, Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Milan-Berlin Township Public Library

The Library is a distinct political subdivision of the State of Ohio governed by a Board of Trustees. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel and does not depend on the District for operational subsidies. In November 2005, the District passed a levy of 1.0 mil on behalf of the Library.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group II Program

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 II Program (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

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

Huron-Erie School Employees Insurance Association

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust funds are reported using the economic resources measurement focus. 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. Fiduciary funds use the accrual basis of accounting.

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 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, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. The Erie County Commissioners waived this requirement for fiscal year 2011.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2011. All amounts reported in the budgetary statement reflect the original and final appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2011. 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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$20,574, which includes \$7,021 assigned from other District funds.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

G. Inventory

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. On fund financial statements inventories are presented at cost on a first-in, first-out basis.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

I. Interfund Balances

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave 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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, 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 sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011, 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.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, is reported as obligations of the funds. However, compensated absences 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. Contractually required pension contributions are reported as liabilities in the fund statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consists of monies restricted for food service operations.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District had no net assets restricted through enabling legislation.

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements (See Note 5).

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Nonmajor Governmental</u> | <u>Total Governmental</u> |
|---------------------------------------|----------------|----------------------------------|----------------------------------|-------------------------------|
| Fund balance as previously reported | \$ 3,484,188 | \$ 1,391,961 | \$ 364,591 | \$ 5,240,740 |
| Fund reclassifications: | | | | |
| Faculty sunshine fund | 342 | - | (342) | |
| Public school support fund | 42,468 | - | (42,468) | - |
| Total fund reclassifications | 42,810 | - | (42,810) | - |
| Restated fund balance at July 1, 2011 | \$ 3,526,998 | \$ 1,391,961 | \$ 321,781 | \$ 5,240,740 |

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Budgetary Basis

| | <u>General Fund</u> |
|----------------------------------|---------------------|
| Balance at June 30, 2010 | \$ 3,964,219 |
| Funds budgeted elsewhere | (900) |
| Restated balance at July 1, 2010 | <u>\$ 3,963,319</u> |

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

| <u>Nonmajor funds</u> | <u>Deficit</u> |
|----------------------------------|----------------|
| Education jobs | \$ 67,850 |
| IDEA Part-B | 37,508 |
| Title II D - Technology | 3 |
| Title I - disadvantaged children | 22,891 |
| IDEA Preschool | 555 |

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted 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 monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

A. Cash on Hand

At fiscal year end, the District had \$1,300 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$5,126,248. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$4,486,602 of the District’s bank balance of \$5,666,796 was exposed to custodial risk as discussed below, while \$1,180,194 was covered by the FDIC.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2011, the District had the following investment and maturity:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities 6 months or less</u> |
|------------------------|---------------------|---|
| STAR Ohio | <u>\$ 1,583,076</u> | <u>\$ 1,583,076</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. Ohio Law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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, 2011:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|-------------------|-------------------|
| STAR Ohio | \$ 1,583,076 | 100.00 |

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

| <u>Cash and investments per note</u> | |
|--|---------------------|
| Carrying amount of deposits | \$ 5,126,248 |
| Investments | 1,583,076 |
| Cash on hand | <u>1,300</u> |
| Total | <u>\$ 6,710,624</u> |
| <u>Cash and cash equivalents per statement of net assets</u> | |
| Governmental activities | \$ 6,556,500 |
| Private-purpose trust funds | 98,440 |
| Agency funds | <u>55,684</u> |
| Total | <u>\$ 6,710,624</u> |

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|-----------------|
| General | Nonmajor governmental funds | <u>\$ 6,100</u> |

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

Interfund loans between governmental funds are eliminated for reporting in the statement of net assets.

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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Erie and Huron Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$931,042 in the general fund and \$98,190 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$722,249 in the general fund and \$75,297 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 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.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

| | 2010 Second Half Collections | | 2011 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 221,231,690 | 95.57 | \$ 221,714,290 | 95.28 |
| Public utility personal | <u>10,246,780</u> | <u>4.43</u> | <u>10,471,890</u> | <u>4.72</u> |
| Total | <u>\$ 231,478,470</u> | <u>100.00</u> | <u>\$ 232,186,180</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$66.95 | | \$66.55 | |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

| | |
|-------------------|----------------------------|
| Taxes | \$ 7,391,547 |
| Accounts | 11,421 |
| Intergovernmental | 128,400 |
| Accrued interest | <u>500</u> |
| Total | <u>\$ 7,531,868</u> |

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

NOTE 8 - CAPITAL ASSETS

| | Balance <u>06/30/2010</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>06/30/2011</u> |
|---|------------------------------|-------------------|--------------------|------------------------------|
| Governmental activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 469,195 | \$ - | \$ - | \$ 469,195 |
| Total capital assets, not being depreciate | <u>469,195</u> | <u>-</u> | <u>-</u> | <u>469,195</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 871,040 | - | - | 871,040 |
| Buildings and improvements | 7,166,954 | 228,386 | - | 7,395,340 |
| Furniture and equipment | 2,590,056 | 304,401 | (17,284) | 2,877,173 |
| Vehicles | <u>1,488,293</u> | <u>88,655</u> | <u>(114,272)</u> | <u>1,462,676</u> |
| Total capital assets, being depreciated | <u>12,116,343</u> | <u>621,442</u> | <u>(131,556)</u> | <u>12,606,229</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (813,730) | (5,332) | - | (819,062) |
| Buildings and improvements | (5,505,025) | (141,644) | - | (5,646,669) |
| Furniture and equipment | (1,482,462) | (194,432) | 4,269 | (1,672,625) |
| Vehicles | <u>(933,795)</u> | <u>(109,458)</u> | <u>102,845</u> | <u>(940,408)</u> |
| Total accumulated depreciation | <u>(8,735,012)</u> | <u>(450,866)</u> | <u>107,114</u> | <u>(9,078,764)</u> |
| Governmental activities capital assets, net | <u>\$ 3,850,526</u> | <u>\$ 170,576</u> | <u>\$ (24,442)</u> | <u>\$ 3,996,660</u> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 202,119 |
| Special | 2,728 |
| <u>Support services:</u> | |
| Pupil | 425 |
| Instructional staff | 15,040 |
| Administration | 18,010 |
| Fiscal | 4,043 |
| Operations and maintenance | 46,024 |
| Pupil transportation | 114,424 |
| Food service operations | 27,839 |
| Extracurricular activities | <u>20,214</u> |
| Total depreciation expense | <u>\$ 450,866</u> |

NOTE 9 - CAPITAL LEASE – LESSEE DISCLOSURE

During fiscal year 2011, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of capital lease as defined by FASB Statement No. 12, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as general fund expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$154,623. Accumulated depreciation as of June 30, 2011 was \$15,463, leaving a current book value of \$139,161. A corresponding liability was recorded on the statement of net assets. Principal and interest payments in the 2011 fiscal year totaled \$21,790 and \$4,085, respectively, paid by the general fund.

The following is a schedule of future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 9 - CAPITAL LEASE – LESSEE DISCLOSURE (Continued)

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|---|-------------------|
| 2012 | \$ 34,499 |
| 2013 | 34,498 |
| 2014 | 34,499 |
| 2015 | 34,498 |
| 2016 | <u>8,625</u> |
| Total | 146,619 |
| Less: amount representing interest | <u>(13,786)</u> |
| Present value of minimum lease payments | <u>\$ 132,833</u> |

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

| | Balance Outstanding | Additions | Reductions | Balance Outstanding | Amounts Due in |
|---|------------------------|-------------------|---------------------|------------------------|-------------------|
| | <u>June 30, 2010</u> | | | <u>June 30, 2011</u> | <u>One Year</u> |
| Governmental activities: | | | | | |
| Capital lease obligation | \$ - | \$ 154,623 | \$ (21,790) | \$ 132,833 | \$ 29,031 |
| Compensated absences | <u>768,446</u> | <u>75,769</u> | <u>(207,113)</u> | <u>637,102</u> | <u>17,469</u> |
| Total long-term obligations, governmental activities | <u>\$ 768,446</u> | <u>\$ 230,392</u> | <u>\$ (228,903)</u> | <u>\$ 769,935</u> | <u>\$ 46,500</u> |

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

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$19,954,286 and an unvoted debt margin of \$221,714.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Vacation Leave

All regular 12 month classified employees shall be entitled to anywhere from one to five weeks of vacation leave at the employee's regular rate of pay depending on the employee's length of service. Vacation time may be carried or split from one anniversary year to the next, up to a maximum of fifteen days. An employee will also be compensated for unused vacation, accrued annually, up to a maximum of ten days if the District requests they work in lieu of taking vacation. In the event of separation from employment, an employee is entitled to compensation for all unused vacation leave up to the maximum.

B. Sick Leave and Severance

Certified employees who has ten or more years of active service with the Board may, at the time of retirement from activity service, elect to be paid in cash for one-third of the value of his or her accrued but unused sick leave credit. Such payment shall be based on the employee's rate of pay at the time of retirement and shall eliminate all sick leave credit accrued, but unused by the employee at the time payment is made. The aggregate value of accrued, but unused, sick leave pay shall not exceed the value of 58 days of sick leave. For this purpose, retirement means that the employee has been approved for retirement by the State Teachers Retirement System of Ohio (STRS) and will begin receiving monthly retirement payments upon receiving the last pay from the Board. Certified employees who elect to retire in the first year when they have 30 years service, or are 55 years old and have 25 years of service, will receive severance pay equal to two-thirds of the employee's accrued but unused sick leave to a maximum of 110 days.

Sick leave for classified employees can be accumulated up to 225 days for nine month employees, and 245 days for twelve month employees. Classified employees who have 15 or more years of active service will be paid for one-third of the value of his or her accrued but unused sick leave credit, not to exceed a maximum of 62 days of severance pay. All employees with at least ten years of service with the District will be paid for one-fourth of the value of his or her accrued but unused sick leave credit, not to exceed a maximum of 42 days of severance pay. The additional pay will be calculated at the rate of pay in effect at the time of retirement. Classified employees who elect to retire the first year when they have 30 years service, or are 55 years old and have 25 years of service, will receive severance pay equal to two-thirds of the employee's accrued but unused sick leave to a maximum of 105 days.

NOTE 12 - RISK MANAGEMENT

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - RISK MANAGEMENT (Continued)

The District is a member of the Huron-Erie School Employees Insurance Association, a public entity risk pool currently operating as a common risk management and health insurance program for 13 member schools. The District pays a monthly premium to the pool for health, prescription drug and dental. The pool agreement provides that the Association will be self-sustaining through member premiums, and the pool purchased stop-loss coverage from private insurance carriers to cover claims in excess of \$250,000 for any employee in a year or to cover aggregate claims in excess of 120% of the prior year's total claims. Individual coverage per person cannot exceed \$1,000,000 in claims during his or her lifetime.

In the event of a withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

For fiscal year 2011, the District participated in the Ohio School Boards Association Workers' Compensation Program ("Program"). The intent of the Program is to assist the district to manage workers' compensation costs and to potentially improve the district's current workers' compensation situation. Participation in the Program is limited to school districts that can meet the Ohio School Boards Association's edibility criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Program.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - PENSION PLANS (Continued)

SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$239,307, \$259,316 and \$191,752, respectively; 54.80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2011, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$860,574, \$887,793 and \$843,933, respectively; 83.84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$11,982 made by the District and \$8,558 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$59,209, \$40,690 and \$117,326, respectively; 54.80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$15,400, \$15,421 and \$15,821, respectively; 54.80 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$66,198, \$68,292 and \$64,918, respectively; 83.84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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 | \$ (501,156) |
| Net adjustment for revenue accruals | 208,912 |
| Net adjustment for expenditure accruals | (8,667) |
| Net adjustment for other sources/uses | 111,198 |
| Funds budgeted elsewhere | 14,486 |
| Adjustment for encumbrances | 378,802 |
| GAAP basis | \$ 203,575 |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the unclaimed monies fund, the faculty sunshine fund and the public school support fund.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - SET-ASIDES

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

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

| | <u>Textbooks</u> | <u>Capital Improvements</u> |
|--|---------------------|---------------------------------|
| Set-aside balance June 30, 2010 | \$ - | \$ - |
| Current year set-aside requirement | 243,310 | 243,310 |
| Current year qualifying expenditures | (256,550) | (75,189) |
| Excess qualified expenditures from prior years | (432,530) | - |
| Current year offsets | <u>-</u> | <u>(733,295)</u> |
| Total | <u>\$ (445,770)</u> | <u>\$ (565,174)</u> |
| Balance carried forward to fiscal year 2012 | <u>\$ -</u> | <u>\$ -</u> |
| Set-aside balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> |

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 17 - SET-ASIDES (Continued)

below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-End Encumbrances</u> |
|-----------------------|----------------------------------|
| General | \$ 358,344 |
| Permanent improvement | 415,799 |
| Other governmental | <u>19,643</u> |
| Total | <u>\$ 793,786</u> |

NOTE 19 – SUBSEQUENT EVENTS

Effective July 1, 2012, Berlin-Milan Local School District changed its name to Edison Local School District.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> | Federal CFDA Number | Receipts | Disbursements |
|--|------------------------------------|----------------------------|----------------------------|
| Program Title | | | |
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | |
| <i>Passed through the Ohio Department of Education</i> | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | \$29,011 | \$29,011 |
| | | | |
| National School Lunch Program | | | |
| Non-Cash Assistance (Food Distribution) | 10.555 | 40,934 | 40,934 |
| Cash Assistance | 10.555 | 204,099 | 204,099 |
| Total National School Lunch Program | | <u>245,033</u> | <u>245,033</u> |
| Total United States Department of Agriculture | | <u>274,044</u> | <u>274,044</u> |
| UNITED STATES DEPARTMENT OF EDUCATION | | | |
| <i>Passed through the Ohio Department of Education</i> | | | |
| <u>Special Education Cluster (IDEA):</u> | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 371,643 | 358,736 |
| ARRA - Special Education - Grants to States (IDEA, Part B) | 84.391 | 161,242 | 195,469 |
| Special Education - Preschool Grants (IDEA Preschool) | 84.173 | 16,802 | 17,302 |
| ARRA - Special Education - Preschool Grants (IDEA Preschool) | 84.392 | 7,849 | 10,825 |
| Total - Special Education Cluster | | <u>557,536</u> | <u>582,332</u> |
| <u>Title I, Part A Cluster:</u> | | | |
| Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) | 84.010 | 210,826 | 208,836 |
| ARRA- Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 11,452 | 19,266 |
| Total - Title I, Part A Cluster | | <u>222,278</u> | <u>228,102</u> |
| | | | |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | 1,226 | 1,676 |
| | | | |
| Education Technology State Grants | 84.318 | 2,007 | 1,940 |
| | | | |
| Improving Teacher Quality State Grants | 84.367 | 45,774 | 42,548 |
| | | | |
| ARRA- State Fiscal Stabilization Fund (SFSF) - Education State Grants | 84.394 | 428,591 | 428,591 |
| | | | |
| Education Jobs Fund (EdJobs) | 84.410 | 231,000 | 230,901 |
| Total United States Department of Education | | <u>1,488,412</u> | <u>1,516,090</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | <u>\$ 1,762,456</u> | <u>\$ 1,790,134</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Berlin-Milan Local School District's (the District) Federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends Federal monies first.

NOTE C - FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

Berlin-Milan Local School District
Erie County
140 South Main Street
Milan, Ohio 44846-9770

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2012, wherein we noted the District adopted Government Accounting Standards Board Statement 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 20, 2012.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 20, 2012



Dave Yost • Auditor of State

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

Berlin-Milan Local School District
Erie County
140 South Main Street
Milan, Ohio 44846-9770

To the Board of Education:

Compliance

We have audited the compliance of the Berlin-Milan Local School District, Erie County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

In our opinion, the Berlin-Milan Local School District, Erie County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2011-001 and 2011-002.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as items 2011-001 and 2011-002. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted matters involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 20, 2012.

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



Dave Yost
Auditor of State

March 20, 2012

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | Yes |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | Yes |
| (d)(1)(vii) | Major Programs (list): | Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392 State Fiscal Stabilization Fund – CFDA 84.394 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|------------------------------------|--|
| Finding Number | 2011-001 |
| CFDA Title and Number | Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392 |
| Federal Award Number / Year | 2011 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Period of Availability of Federal Funds – Noncompliance Citation/Questioned Cost/Significant Deficiency

34 CFR 74.28 provides that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The Ohio Department of Education (ODE) 2011 Continuous Comprehensive Improvement (CCIP) Consolidated Application for the Special Education, Part B-IDEA grant defined the available period as July 1, 2010 to June 30, 2011. The Ohio Department of Education (ODE) 2010 Continuous Comprehensive Improvement (CCIP) American Recovery and Reinvestment Act Application for the ARRA Special Education, Part B-IDEA grant defined the available period as July 1, 2009 to June 30, 2010. 34 C.F.R. 76.707 states that an obligation for personal services by an employee of the State or subgrantee occurs when the services are performed.

The District charged \$12,845 in wages for services performed prior to July 1, 2010 to their 2011 Special Education, Part B-IDEA grant. These costs represent Educational Aide payroll expenses for July and August, 2010 attributable to the 2010 contract year. The Educational Aides had satisfied all 2010 contract obligations as of June 30, 2010. There were no pre-award costs authorized for the grant.

The District charged \$6,726 in wages and fringe benefits (retirement and Medicare) for services performed subsequent to July 1, 2010 to their 2010 ARRA Special Education, Part B-IDEA grant. These costs represent Educational Aide payroll expenses for September, 2010 attributable to the 2011 contract year. The Educational Aides had satisfied all 2010 contractual obligations as of June 30, 2010.

Total questioned for expenditures outside the period of availability are nineteen thousand five hundred seventy one dollars (\$19,571) of the \$582,332 spent on the Special Education Cluster grant during 2011. The District recorded corrections in the final expenditure reports for the fiscal year 2011 and 2010 grant periods in order to properly report these items in the appropriate grant years.

We recommend the District use grant funds only for expenditures obligated during the period of availability.

| | |
|------------------------------------|---|
| Finding Number | 2011-002 |
| CFDA Title and Number | State Fiscal Stabilization Fund – CFDA 84.394 |
| Federal Award Number / Year | 2011 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Cash Management – Noncompliance Citation/Significant Deficiency

34 C.F.R. 80.20(b)(7) states, in part, when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. State Fiscal Stabilization Fund (SFSF) monies are received in advance by the District through the foundation program as indicated in the Ohio Department of Education (ODE) Pathway to Student Success (PASS) form.

Our review of District SFSF Fund balances and subsequent monthly expenditures revealed several instances in which monies were not expended in a timely manner (i.e., 30 days). The SFSF Fund balance for the applicable months ranged from approximately \$30,000-160,000.

The District should implement an internal control system designed to ensure advance SFSF payments are spent timely.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

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

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2011**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|--|-----------------------------|----------------------------|
| 2011-001 | The District made the appropriate corrections to the final expenditure reports to accurately report these disbursements. | March 30, 2012 | Nicole Spriggs, Treasurer |
| 2011-002 | The District will implement controls to ensure SFSP funds are spent timely. | March 30, 2012 | Nicole Spriggs, Treasurer |

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Berlin-Milan Local School District
Erie County
140 South Main Street
Milan, Ohio 44846-9770

To the Board of Education:

Ohio Rev. Code, Section 117.53, states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Berlin-Milan Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the District amended its anti-harassment policy at its meeting on July 20, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 20, 2011



Dave Yost • Auditor of State

BERLIN-MILAN LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2012**