



Mary Taylor, CPA
Auditor of State

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Manchester Local School District
Adams County
130 Wayne Frye Drive
Manchester, Ohio 45144

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 Manchester Local School District, Adams County, Ohio (the District), as of and for the year ended June 30, 2007, 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 Manchester Local School District, Adams County, Ohio, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

June 17, 2008

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

As management of the Manchester Local School District, we offer readers of the Manchester Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2007. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

The Manchester Local School District was organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The District was created by the South Central Ohio Educational Service Center on January 13, 2004. Formerly, the Manchester Local School District territory was a part of Adams County/Ohio Valley School District. The State Department of Education granted the District a school district charter on April 13, 2004 and the School District started formal operations on July 1, 2004.

Financial Highlights

The assets of the School District exceeded its liabilities at June 30, 2007 by \$6,757,585 which represents a 125.8 percent increase from 2006. The increase is the result of the remaining unused lease cash proceeds for the new elementary building construction, the yearly payment of debt, and the addition of construction in progress and improvements other than buildings in capital assets.

General revenues accounted for \$13,966,366 or 88.7 percent of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants, contributions, and interest accounted for \$1,781,700 or 11.3 percent of total revenues of \$15,748,066.

The School District had \$11,983,084 in expenses; 14.9 percent of these expenses were offset by program specific charges for services and sales, and operating grants, contributions and interest. General revenues (primarily grants and entitlements and property taxes) of \$13,966,366 were adequate to provide for the remaining cost of these programs.

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 School District as a financial whole, or an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. 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 School District's major funds with all other non-major funds presented in total in one column.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the Manchester Local School District as a Whole

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2007. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

All of the School District's programs and services provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

Reporting the Manchester Local School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds which are the General Fund, the Debt Service Fund, and the Construction Fund.

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

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

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal years 2007 and 2006:

(Table 1)
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and Other Assets	\$21,569,992	\$14,232,984
Capital Assets, Net	17,694,441	12,894,276
Total Assets	<u>39,264,433</u>	<u>27,127,260</u>
Liabilities		
Long-Term Liabilities	24,249,276	16,920,181
Other Liabilities	8,257,572	7,214,476
Total Liabilities	<u>32,506,848</u>	<u>24,134,657</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	996,864	(3,421,999)
Restricted	2,192,185	1,887,457
Unrestricted	<u>3,568,536</u>	<u>4,527,145</u>
Total Net Assets	<u><u>\$6,757,585</u></u>	<u><u>\$2,992,603</u></u>

Total assets increased \$12,137,173. Equity in Pooled Cash and Cash Equivalents increased \$7,115,792 due to unused lease proceeds for the construction of the New Manchester Elementary. Capital assets in the area of Land and Construction in Process increased \$3,262,594 due to the New Elementary building work in process. Capital Assets Net increased \$1,486,923 due to the completion of the site work started in May, 2006 and the purchase of two school buses. Deferred Charges increased \$50,648 due to the cost related to processing the leases. Taxes Receivable increased \$110,258 due to an increase in tax funds available for advance, Interest Receivable increased \$79,672 due to the investment of unused construction funds, and Intergovernmental Receivables increased \$40,587 due to a food service reimbursement payment outstanding at year end.

Total liabilities increased \$8,372,191. Contracts Payable increased \$864,238 due to the New Elementary construction contracts. Accrued Wages and Benefits decreased \$35,946 due to a reduction in personnel. Accounts Payable decreased \$37,636 due to the purchase of textbooks last fiscal year. Deferred Revenue increased \$150,176 due to an increase in tax funds available for advance. Accrued Interest Payable increased \$58,801 due to the interest incurred on the construction funds of the new elementary. Matured Compensated Absences Payable increased \$34,690 due to an increase in severance payments. Long-term liabilities increased \$7,329,095 due to leases incurred to build the new elementary and purchase school buses.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Total Net Assets increased \$3,764,982. Unrestricted Net Assets decreased \$958,609 due to using saved deregulation revenues for the construction of the new elementary. The value of Invested in Capital Assets, Net of Related Debt increased \$4,418,863 due to the debt payments made during the year and the site improvements and equipment/vehicles.

Table 2 shows the changes in net assets for fiscal years 2007 and 2006.

	2007	2006	% Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$597,078	\$545,652	9%
Operating Grants, Contributions, and Interest	1,184,622	1,084,890	9%
Capital Grants and Contributions	0	98,334	-100%
Total Program Revenues	<u>1,781,700</u>	<u>1,728,876</u>	3%
General Revenues:			
Property Taxes	6,751,605	3,973,819	70%
Grants and Entitlements not Restricted to Specific Programs	6,450,641	8,752,471	-26%
Investment Earnings	735,503	146,832	401%
Miscellaneous	28,617	12,059	137%
Total General Revenues	<u>13,966,366</u>	<u>12,885,181</u>	8%
Total Revenues	<u>15,748,066</u>	<u>14,614,057</u>	8%
Program Expenses:			
Instruction			
Regular	3,942,520	4,076,583	-3%
Special	1,486,376	1,508,153	-1%
Vocational	932,403	816,454	14%
Student Intervention Services	96,905	0	100%
Support Services			
Pupils	498,713	495,227	1%
Instructional Staff	349,636	403,804	-13%
Board of Education	67,550	64,467	5%
Administration	782,882	735,691	6%
Fiscal	406,325	355,906	14%
Operation and Maintenance of Plant	840,178	809,363	4%
Pupil Transportation	537,544	581,221	-8%
Operation of Non-Instructional Services:			
Food Services	499,248	534,049	-7%
Extracurricular Activities	247,582	243,532	2%
Interest and Fiscal Charges	1,295,222	973,798	33%
Total Expenses	<u>11,983,084</u>	<u>11,598,248</u>	3%
Change in Net Assets	3,764,982	3,015,809	25%
Net Assets at Beginning of Year	2,992,603	(23,206)	12996%
Net Assets at End of Year	<u>\$6,757,585</u>	<u>\$2,992,603</u>	126%

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The statement of activities shows the cost of program services and the charges for services and sales, and operating grants, contributions and interest.

The 126 percentage end of the year increase of Net Assets between fiscal year 2005-2006 and 2006-2007 is due to acquiring the leases for the construction of the new elementary and acquiring school buses. The site work for the new elementary was completed and the construction of the new elementary was started adding to the value of capital assets in fiscal year 2007. Property taxes increased and grants and entitlements not restricted to specific programs decreased due to the District collecting its first full year of property taxes. In fiscal year 2006, half of the tax receipts came from Adams County/Ohio Valley School District and were received as an entitlement. Interest income increased due to better interest rates and the investment of the lease funds during construction. Interest expense and fiscal charges increased due to two lease payments on the new elementary during the fiscal year.

Net assets at the end of the year improved due to the additional funds on hand from the lease that will be used for the construction costs of the New Elementary, the reduction of debt due to the payments made during the year and the acquisition of capital assets.

Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and property taxes.

(Table 3)

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Instruction	\$6,458,204	\$6,401,190	(\$5,460,456)	(\$5,384,980)
Support Services	3,482,828	3,445,679	(3,284,028)	(3,346,523)
Operation of Non-Instructional Services	499,248	534,049	(37,480)	(5,494)
Extracurricular Activities	247,582	243,532	(124,198)	(158,577)
Interest and Fiscal Charges	1,295,222	973,798	(1,295,222)	(973,798)
Total Expenses	<u>\$11,983,084</u>	<u>\$11,598,248</u>	<u>(\$10,201,384)</u>	<u>(\$9,869,372)</u>

The School District's Funds

Information about the School District's major funds starts on page 13. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$15,770,069 and expenditures of \$18,590,853.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The General fund saw a decrease in fund balance of \$9,547. This decrease was due to an increase in transfers out to the Construction fund. The Debt Service fund saw a fund balance increase \$338,911 due to revenues exceeding the required principal and interest payments. The Construction fund also saw an increase in fund balance \$6,044,705 which was due primarily to receiving the proceeds of the new elementary lease and the transfer in from the General Fund.

General Fund - Budget Highlights

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$33,589 less than the final budgeted amount for the General Fund. Actual revenues were \$114,494 below final budgeted revenues. Final budgeted expenditures were \$80,094 more than actual expenditures. Original budgeted revenues were \$759,527 less than final budgeted revenues due to increases in property taxes, interest, and tuition/fee monies received during the year. Original budgeted appropriations were \$210,454 less than final budgeted expenditures due primarily to increases in vocational contract costs and pupil transportation costs. These differences represent cyclical changes that occur throughout the year and are not known at the time the original budgets are prepared.

Capital Assets

At the end of fiscal year 2007 the School District had \$17,643,793 invested in capital assets.

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

	Governmental Activities	
	2007	2006
Land	\$671,057	\$671,057
Construction in Process	4,281,421	1,018,827
Land Improvements	1,880,609	490,444
Buildings and Improvements	9,745,541	9,747,476
Furniture, Fixtures and Equipment	517,240	489,884
Vehicles	547,925	476,588
Totals	\$17,643,793	\$12,894,276

For more information on capital assets, see Note 9 to the basic financial statements.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Debt

At June 30, 2007, the School District had \$23,622,577 in bonds, loans and leases outstanding, with \$1,885,868 due within one year. Table 5 summarizes bonds outstanding:

(Table 5)
Outstanding Debt, at Year-End

	2007	2006
General Obligation Bonds:		
1995 4.55%-5.25% School Improvement Bonds	\$15,336,300	\$15,885,660
2006 OASBO Lease	7,822,000	0
2002 4.33-5.92% Energy Conservation Bonds	330,488	399,158
2007 Fifth Third Bank Lease	120,055	0
1998 4.87% School Improvement Bonds	13,734	27,468
1987 EPA	0	3,989
Totals	\$23,622,577	\$16,316,275

The School District's overall legal debt margin was \$7,366,542 with an unvoted debt margin of \$231,806 and an Energy Conservation debt margin of \$1,755,763 at June 30, 2007.

On August 17, 2006 the School District entered into a Lease-Purchase Agreement for \$9,059,000 with the OASBO Expanded Asset Pooled Financing Program to finance the construction of the New Manchester Elementary. The payments began on November 1, 2006 with the last payment scheduled on May 1, 2012.

On June 1, 2007 the School District entered into a Lease-Purchase Agreement for \$134,980 with Fifth Third Bank to finance the purchase of two school buses. The payments began on June 7, 2007 with the last payment scheduled on December 7, 2011.

For more information on debts and leases, refer to notes 14 and 15 in the basic financial statements.

Current Issues

Deregulation Funding

The School District will lose sixteen million dollars (\$16,000,000) over the next nine years due to a legislative change in the deregulation law. The District has contacted their representatives and has been in discussion about a possible reversal; however at this time the law has been modified to hold the District harmless from deregulation payment decreases for the current biannual budget for fiscal years 2007-08 and 2008-09.

Manchester Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2007
 Unaudited

Construction Project

The School District is currently constructing a new elementary building to be attached to the present high school with some minor renovation work to the high school. Site work started in May, 2006 and was completed August, 2006. The estimated completion of the new elementary is fall, 2008.

The following construction contracts were outstanding as of June 30, 2007.

Contractor	Trade	Contract Amount	Outstanding Balance
Tanner Stone & Co	Architects	\$ 944,437	\$ 203,483
Boone Coleman Construction	Site Work	1,163,913	4,000
J & H Structural Reinforcing	General	7,483,500	5,087,223
BB&E	HVAC	1,746,700	1,330,321
BB&E	Plumbing	649,516	373,040
Sidewinder Electric	Electrical	1,317,900	1,121,313
Emerald	Fire Protection	170,525	108,389
Structured Cabling	Tech Cabling	284,000	274,800
American Sound	Security	137,800	137,800
American Sound	Sound System	277,900	277,900
NorCom	Telephone Sys	339,000	339,000
Unger Construction	Sanitary Sys	137,700	137,700
Triad Engineers	Engineer	31,450	13,722
Total		<u>\$ 14,684,341</u>	<u>\$ 9,408,691</u>

Pending Litigation

A lawsuit was filed against the School District on August 9, 2007. The School District is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Karen Ballengee, Treasurer, Manchester Local School District, 130 Wayne Frye Drive, Manchester, Ohio, 45144.

Manchester Local School District

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$14,748,801
Prepaid Items	16,913
Materials and Supplies Inventory	41,503
Intergovernmental Receivable	171,580
Property Taxes Receivable	6,428,914
Interest Receivable	160,283
Accounts Receivable	1,998
Capital Assets:	
Deferred Charges	50,648
Land and Construction in Process	4,952,478
Depreciable Capital Assets, Net	<u>12,691,315</u>
Total Assets	<u><u>39,264,433</u></u>
Liabilities	
Accounts Payable	44,662
Accrued Wages and Benefits	694,701
Contracts Payable	1,076,570
Intergovernmental Payable	146,349
Due to Students	1,167
Deferred Revenue	6,100,773
Accrued Interest Payable	136,752
Matured Compensated Absences Payable	50,662
Retainage Payable	5,936
Long-Term Liabilities:	
Due Within One Year	1,921,777
Due in More Than One Year	<u>22,327,499</u>
Total Liabilities	<u><u>32,506,848</u></u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	996,864
Restricted for:	
Debt Service	2,053,880
Other Purposes	138,305
Unrestricted	<u>3,568,536</u>
Total Net Assets	<u><u>\$6,757,585</u></u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest	Governmental Activities	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$3,942,520	\$306,047	\$113,770	(\$3,522,703)
Special	1,486,376	1,197	515,299	(969,880)
Vocational	932,403	0	0	(932,403)
Other	96,905	0	61,435	(35,470)
Support Services:				
Pupils	498,713	0	55,652	(443,061)
Instructional Staff	349,636	0	32,698	(316,938)
Board of Education	67,550	0	0	(67,550)
Administration	782,882	0	57,552	(725,330)
Fiscal	406,325	0	0	(406,325)
Operation and Maintenance of Plant	840,178	6,150	14,405	(819,623)
Pupil Transportation	537,544	0	32,343	(505,201)
Operation of Non-Instructional Services:				
Food Services	499,248	160,300	301,468	(37,480)
Extracurricular Activities	247,582	123,384	0	(124,198)
Interest and Fiscal Charges	1,295,222	0	0	(1,295,222)
Total Governmental Activities	\$11,983,084	\$597,078	\$1,184,622	(10,201,384)
General Revenues:				
Property Taxes Levied for:				
				5,543,455
				1,208,150
Grants and Entitlements not				
				6,450,641
				735,503
				28,617
				13,966,366
				3,764,982
				2,992,603
				\$6,757,585

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District

Balance Sheet
Governmental Funds
June 30, 2007

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,410,445	\$2,055,974	\$ 10,117,497	\$164,885	\$14,748,801
Receivables:					
Property and Other Local Taxes	5,324,343	1,104,571	0	0	6,428,914
Intergovernmental	18,779	0	0	152,801	171,580
Interest	108,482	0	49,861	1,940	160,283
Accounts	1,855	0	0	143	1,998
Prepaid Items	12,163	0	4,000	750	16,913
Materials and Supplies Inventory	31,892	0	0	9,611	41,503
Total Assets	<u>\$7,907,959</u>	<u>\$3,160,545</u>	<u>10,171,358</u>	<u>\$330,130</u>	<u>\$21,569,992</u>
Liabilities					
Accounts Payable	\$36,922	\$0	\$3,227	\$4,513	\$44,662
Accrued Wages and Benefits	592,011	0	0	102,690	694,701
Intergovernmental Payable	132,232	0	598	13,519	146,349
Deferred Revenue	5,270,230	1,001,366	3,491	30,147	6,305,234
Matured Compensated Absences Payable	50,662	0	0	0	50,662
Contracts Payable	0	0	1,076,570	0	1,076,570
Retainage Payable			5,936		5,936
Due to Students	0	0	0	1,167	1,167
Total Liabilities	<u>6,082,057</u>	<u>1,001,366</u>	<u>1,089,822</u>	<u>152,036</u>	<u>8,325,281</u>
Fund Balances					
Reserved for Encumbrances	78,489	0	984,004	22,407	1,084,900
Reserved for Property Taxes	60,237	102,929	0	0	163,166
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	1,687,176	0	0	0	1,687,176
Special Revenue Funds	0	0	0	155,687	155,687
Debt Service Fund	0	2,056,250	0	0	2,056,250
Capital Projects Funds	0	0	8,097,532	0	8,097,532
Total Fund Balances	<u>1,825,902</u>	<u>2,159,179</u>	<u>9,081,536</u>	<u>178,094</u>	<u>13,244,711</u>
Total Liabilities and Fund Balances	<u>\$7,907,959</u>	<u>\$3,160,545</u>	<u>\$10,171,358</u>	<u>\$330,130</u>	<u>\$21,569,992</u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007

Total Governmental Fund Balances \$13,244,711

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	671,057	
Construction in Process	4,281,421	
Capital assets	17,360,967	
Accumulated depreciation	(4,669,652)	
Total capital assets	17,643,793	17,643,793

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	163,229	
Intergovernmental	30,011	
Interest	11,221	
	204,461	204,461

Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 50,648

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(15,680,522)	
Capital Leases payable	(7,942,055)	
Accrued interest on bonds	(136,752)	
Compensated absences	(626,699)	
	(24,386,028)	(24,386,028)

Net Assets of Governmental Activities \$6,757,585

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$5,532,431	\$1,211,063	\$0	\$0	\$6,743,494
Intergovernmental	6,045,579	440,406	0	1,147,500	7,633,485
Interest	313,167	312,412	131,777	5,039	762,395
Tuition and Fees	307,244	0	0	0	307,244
Extracurricular Activities	0	0	0	110,838	110,838
Customer Services	0	0	0	160,300	160,300
Rent	6,150	0	0	0	6,150
Gifts and Donations	0	0	0	7,254	7,254
Miscellaneous	22,527	0	6,100	10,282	38,909
Total Revenues	12,227,098	1,963,881	137,877	1,441,213	15,770,069
Expenditures:					
Current:					
Instruction:					
Regular	3,610,039	0	371	116,463	3,726,873
Special	906,592	0	0	530,626	1,437,218
Vocational	921,338	0	0	0	921,338
Student Intervention Services	35,470	0	0	61,435	96,905
Support Services:					
Pupils	419,190	0	0	70,837	490,027
Instructional Staff	321,112	0	0	20,390	341,502
Board of Education	67,550	0	0	0	67,550
Administration	709,151	0	0	57,552	766,703
Fiscal	355,187	41,230	0	0	396,417
Operation and Maintenance of Plant	809,557	0	0	0	809,557
Pupil Transportation	627,121	0	0	11,404	638,525
Operation of Non-Instructional Services:					
Food Services	0	0	0	473,510	473,510
Extracurricular Activities	134,256	0	0	108,350	242,606
Capital Outlay	0	0	5,007,375	0	5,007,375
Debt Service:					
Principal	0	1,887,678	0	0	1,887,678
Interest and Fiscal Charges	0	1,226,569	0	0	1,226,569
Issuance Costs	1,500	0	59,000	0	60,500
Total Expenditures	8,918,063	3,155,477	5,066,746	1,450,567	18,590,853
Excess of Revenue Over (Under) Expenditures	3,309,035	(1,191,596)	(4,928,869)	(9,354)	(2,820,784)
Other Financing Sources (Uses):					
Transfers In	0	1,530,507	1,914,574	10,001	3,455,082
Transfers Out	(3,455,082)	0	0	0	(3,455,082)
Proceeds from Lease	134,980	0	9,059,000	0	9,193,980
Proceeds from Sale of Capital Assets	1,520	0	0	0	1,520
Total Other Financing Sources (Uses)	(3,318,582)	1,530,507	10,973,574	10,001	9,195,500
Net Change in Fund Balances	(9,547)	338,911	6,044,705	647	6,374,716
Fund Balances at Beginning of Year	1,835,449	1,820,268	3,036,831	177,447	6,869,995
Fund Balances at End of Year	<u>\$1,825,902</u>	<u>\$2,159,179</u>	<u>\$9,081,536</u>	<u>\$178,094</u>	<u>\$13,244,711</u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$6,374,716

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed asset additions	5,224,031	
Depreciation expense	(468,825)	
Excess of capital outlay under depreciation expense		4,755,206

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Proceeds from Sale of Capital Assets	(1,520)	
Loss on Disposal of Capital Assets	(4,169)	
		(5,689)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes	8,111	
Intergovernmental	(7,878)	
Interest	(22,236)	
		(22,003)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability. (9,193,980)

Governmental funds report issuance costs as expenditures, whereas these amounts are deferred and amortized in the statement of activities.

Issuance costs	60,500	
Amortization of issuance costs	(9,852)	
		50,648

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Bond principal retirement	618,030	
Loan principal retirement	17,723	
Capital lease payments	1,251,925	
		1,887,678

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

Increase in accrued interest	(58,801)	
Increase in compensated absences	(22,793)	
Total additional expenditures		(81,594)

Change in Net Assets of Governmental Activities \$3,764,982

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 5,140,000	\$ 5,641,333	\$ 5,637,264	(4,069)
Intergovernmental	5,999,015	6,026,956	6,026,956	0
Interest	137,000	338,872	229,243	(109,629)
Tuition and Fees	272,000	307,239	307,239	0
Rent	14,000	6,150	6,150	0
Miscellaneous	22,000	22,992	22,196	(796)
Total Revenues	<u>11,584,015</u>	<u>12,343,542</u>	<u>12,229,048</u>	<u>(114,494)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,708,063	3,667,201	3,662,078	5,123
Special	966,660	893,301	889,712	3,589
Vocational	864,997	941,437	939,539	1,898
Other	27,811	36,360	34,841	1,519
Support Services:				
Pupils	398,612	411,372	406,526	4,846
Instructional Staff	325,147	342,223	338,813	3,410
Board of Education	74,844	94,651	91,240	3,411
Administration	712,285	717,495	712,057	5,438
Fiscal	368,949	359,630	357,496	2,134
Operation and Maintenance of Plant	828,551	846,098	838,339	7,759
Pupil Transportation	515,468	673,814	647,334	26,480
Extracurricular Activities:				
Academic Oriented Activities	13,950	13,951	10,513	3,438
Sport Oriented Activities	132,970	141,058	128,509	12,549
Capital Outlay:				
Site Improvement Services	0	10,170	10,170	0
Debt Service				
Issuance Costs	0	0	1,500	(1,500)
Total Expenditures	<u>8,938,307</u>	<u>9,148,761</u>	<u>9,068,667</u>	<u>80,094</u>
Excess of Revenues Over (Under) Expenditures	<u>2,645,708</u>	<u>3,194,781</u>	<u>3,160,381</u>	<u>(34,400)</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets	200	709	1,520	811
Proceeds from Leases	0	134,980	134,980	0
Transfers In	20,000	0	0	0
Advances In	73,335	73,335	73,335	0
Transfers Out	(3,180,310)	(3,455,082)	(3,455,082)	0
Advances Out	(73,335)	(55,000)	(55,000)	0
Total Other Financing Sources and Uses	<u>(3,160,110)</u>	<u>(3,301,058)</u>	<u>(3,300,247)</u>	<u>811</u>
Net Change in Fund Balances	<u>(514,402)</u>	<u>(106,277)</u>	<u>(139,866)</u>	<u>(33,589)</u>
Fund Balance (Deficit) at Beginning of Year	2,308,515	2,308,515	2,308,515	0
Prior Year Encumbrances Appropriated	<u>132,683</u>	<u>132,683</u>	<u>132,683</u>	<u>0</u>
Fund Balance (Deficit) at End of Year	<u>\$ 1,926,796</u>	<u>\$ 2,334,921</u>	<u>\$ 2,301,332</u>	<u>\$ (33,589)</u>

See accompanying notes to the basic financial statements

Manchester Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$25,500	\$23,027
Liabilities		
Undistributed Monies	0	\$23,027
Net Assets		
Held in Trust for Scholarships	\$25,500	

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$4,700
Interest	769
Total Additions	5,469
Deductions:	
Scholarships Awarded	3,125
Change in Net Assets	2,344
Net Assets Beginning of Year	23,156
Net Assets End of Year	\$25,500

See Accompanying Notes to the Basic Financial Statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Manchester Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The Manchester Local School District was established in 2004 through the deconsolidation of existing land areas in the Adams County/Ohio Valley School District. The School District serves an area of approximately 115 square miles. It is located in Adams County, and includes the Villages of Manchester and Rome, all of Manchester Township, portions of Green Township, Monroe Township, and all of Sprigg Township. The School District is staffed by 40 non-certificated employees, 67 certificated teaching personnel and 7 administrative employees who provide services to 927 students and other community members. The School District currently operates 3 instructional buildings and 1 bus garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Manchester Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Schools of Ohio Risk Sharing Authority, and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan (GRP). These organizations are presented in Notes 18 and 19 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District's major governmental funds:

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for and the payment of, general long-term obligation principal, interest, and certain other long-term obligations when the School District is obligated for the payment.

Construction Fund - The Construction Fund is used to account for the resources for, and the payment of, construction projects and other asset investments having a useful life over one year.

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

Fiduciary Funds:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements:

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

The private purpose trust fund is reported using the economic resources measurement focus.

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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means that the resources are collectible 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 School District, “available” means expected to be received within sixty days of fiscal year-end.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (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 year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 for advance and grants.

Deferred Revenue:

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2007, the School District's investments were limited to certificate of deposits and government sponsored enterprise notes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$313,167 which includes \$129,358 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of purchased and donated food held for resale and consumable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation.

I. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets 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.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) 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 School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 30 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 10 years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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 in the current fiscal year. Bonds, loans, and capital leases are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

The government-wide statement of net assets reports \$2,192,185 of restricted net assets, none of which are restricted by enabling legislation.

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Interfund Transactions

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

O. Estimates

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

P. Budgetary Process

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

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

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 3 – ACCOUNTABILITY

At June 30, 2007, the Title IIA Special Revenue Fund had a deficit fund balance of \$459 and the IDEA Part-B Special Revenue Fund had a deficit fund balance of \$3,559. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. The change of fair value of investments is not included on the budget basis operating statement. This amount is included on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$9,547)
Adjustments:	
Revenue Accruals	(5,480)
Expenditure Accruals	(34,060)
Encumbrances	(116,544)
Advances	18,335
Change in Fair Value of Investments	7,430
Budget Basis	(\$139,866)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

Interim 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.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$12,310,610 the School District's bank balance of \$12,513,120 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2007, the School District had the following investments, which are in an internal investment pool:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Medium Term Notes	\$996,320	1/27/2009
Federal National Mortgage Association Bonds	\$595,878	6/18/2010
Federal National Mortgage Association Medium Term Notes	\$499,220	1/18/2008
Federal Home Loan Mortgage Corporation Medium Term Notes	\$497,600	1/24/2011
U S Government Securities Fund - Class B Mutual Funds	\$14,270	
	<u>\$2,603,288</u>	

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Credit Risk

The Federal Home Loan Mortgage Corporation MTN, Federal National Mortgage Association Bonds, and Federal National Mortgage Association MTN carry a rating of Aaa by Moodys. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Medium Term Notes, Federal National Mortgage Association Bonds, Federal National Mortgage Association Medium Term Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent in the School District's brokerage account. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 57.4 percent is invested in Federal Home Loan Mortgage Corporation Medium Term Notes, 22.9 percent is invested in Federal National Mortgage Bonds, and 19.2 percent is invested in Federal National Mortgage Association Medium Term Notes.

NOTE 6 - PROPERTY TAXES

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

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES (continued)

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

Tangible personal property tax revenue received during calendar year 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, however, the June 2007 tangible personal property tax from Adams County was not received until July 2007.

The School District receives property taxes from Adams County. The Adams County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2007 was \$60,237 in the General Fund and \$102,929 in the Debt Service Fund. The amount available as an advance at June 30, 2006 was \$145,931 in the General Fund and \$42,032 in the Debt Service Fund.

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES (continued)

The District's assessed values upon which the first half fiscal year 2006 taxes were collected and the assessed values upon which the second half fiscal year 2006 taxes were collected are:

	<u>2006 Second - Half Collections</u>		<u>2007 First - Half Collections</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Agricultural/Residential and Other Real Estate	\$95,429,470	41.52%	\$95,924,190	41.21%
Public Utility Personal	133,856,370	58.23%	136,326,350	58.56%
Tangible Personal Property	574,030	0.25%	538,100	0.23%
Total Assessed Value	<u>\$229,859,870</u>	<u>100.00%</u>	<u>\$232,788,640</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.47		\$31.47	

NOTE 7 – ELECTRIC DEREGULATION FUNDS

The School District will lose sixteen million dollars (\$16,000,000) over the next nine years due to a legislative change in the deregulation law. The District has contacted their representatives and has been in discussion about a possible reversal; however at this time the law has been modified to hold the District harmless from deregulation payment decreases for the current biannual budget for fiscal years 2007-08 and 2008-09.

NOTE 8 – RECEIVABLES

Receivables at June 30, 2007, consisted of taxes, intergovernmental grants, interest, and accounts. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of intergovernmental receivables follows:

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 – RECEIVABLES (continued)

	<u>Amounts</u>
Governmental Activities:	
Title I Grant	\$ 46,412
IDEA Part B Grant	33,332
Federal Lunchroom Grant	37,358
Ohio Core Grant	15,942
Title II-A Grant	18,318
Adams County Auditor	1,160
Adams Co/Ohio Valley Schools	16,736
Ohio Dept of Taxation	883
Title II-D	747
Title IV	692
Total Intergovernmental Receivables	<u>\$ 171,580</u>

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 - CAPITAL ASSETS

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

	Balance at 7/1/06	Additions	Deductions	Balance at 6/30/07
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$671,057	\$0	\$0	\$671,057
Construction in Progress	1,018,827	5,009,048	(1,746,454)	4,281,421
Total Capital Assets Not Being Depreciated	<u>1,689,884</u>	<u>5,009,048</u>	<u>(1,746,454)</u>	<u>4,952,478</u>
Capital Assets Being Depreciated:				
Land Improvements	845,983	1,451,330	0	2,297,313
Buildings and Improvements	12,527,257	231,400	0	12,758,657
Furniture, Fixtures and Equipment	1,262,586	133,410	(20,406)	1,375,590
Vehicles	784,110	145,297	0	929,407
Totals Capital Assets, Being Depreciated	<u>15,419,936</u>	<u>1,961,437</u>	<u>(20,406)</u>	<u>17,360,967</u>
Less Accumulated Depreciation:				
Land Improvements	(355,539)	(61,165)	0	(416,704)
Building and Improvements	(2,779,781)	(233,335)	0	(3,013,116)
Furniture, Fixtures and Equipment	(772,702)	(100,365)	14,717	(858,350)
Vehicles	(307,522)	(73,960)	0	(381,482)
Total Accumulated Depreciation	<u>(4,215,544)</u>	<u>(468,825) *</u>	<u>14,717</u>	<u>(4,669,652)</u>
Total Capital Assets Being Depreciated, Net	<u>11,204,392</u>	<u>1,492,612</u>	<u>(5,689)</u>	<u>12,691,315</u>
Governmental Activities Capital Assets, Net	<u>\$12,894,276</u>	<u>\$6,501,660</u>	<u>(\$1,752,143)</u>	<u>\$17,643,793</u>

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$219,135
Special	44,732
Vocational	10,339
Support Services:	
Pupils	18,864
Instructional Staff	8,985
Administration	15,784
Fiscal	4,923
Operation and Maintenance of Plant	31,352
Pupil Transportation	72,695
Operation of Non-Instructional Services - Food Services	27,613
Extracurricular Activities	14,403
Total Depreciation Expense	<u><u>\$468,825</u></u>

NOTE 10 - RISK MANAGEMENT

A. Builders Risk, Property and Liability

The School 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 School District contracted with Travelers Property Casualty Company of America for builders' risk insurance with the following coverage:

Builders' Risk Coverage (\$5,000)	\$16,000,000
Temporary Storage Limit of Insurance	100,000
Transit Limit of Insurance	100,000

The School District carries cheerleader catastrophic accident insurance through Ohio High School Athletic Association program under AIG Life Insurance Company. Coverage is an aggregate maximum of \$450,000 per cheerleader with a \$25,000 deductible.

The School District, along with other school districts in Ohio, participates in the Schools of Ohio Risk Sharing Authority, Inc. Plan (SORSA), an insurance purchasing pool. Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the SORSA (See Note 19).

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 - RISK MANAGEMENT (continued)

Insurance coverage provided includes the following:

Building and contents (\$1,000 Deductible)	\$26,363,229
Crime Coverage (\$1,000 Deductible)	\$50,000
Fleet Insurance Coverages	
Combined single Limit Liability	\$1,000,000
Auto Medical Payments	5,000/25,000
Uninsured Motorist	1,000,000
Comprehensive and Collision (\$1,000 Deductible)	ACV
Garagekeepers Physical Damage (\$1,000 Deductible)	100,000
General Liability	
Each Occurrence Limit	1,000,000
General Aggregate Limit	3,000,000
Errors or Omissions Limit (\$5,000 Deductible)	1,000,000
Fire Damage Limit (any one fire)	500,000
Medical Expense (per person/accident)	5,000

Settled claims have not exceeded this commercial coverage in the past year. There has been no significant change in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$117,247, \$107,886, and \$102,886 respectively; 100 percent has been contributed for each fiscal year.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. 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.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$465,089, \$693,194, and \$554,952, respectively; 48.22% percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$6,824 made by the School District and \$6,936 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$35,776 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$52,915.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Twelve month administrators earn twenty days of vacation per fiscal year. Up to two years accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for teachers, 260 for classified employees and the number of days in each administrator contract. Teachers may accumulate for retirement severance purposes an unlimited number of days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave. The School District offers a super-severance provision for teachers and administrators who retire in their first year of eligibility. Under this policy, payment is made for one-half of the accumulated sick leave credit up to a maximum of one hundred days.

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Met Life Insurance Company at the expense of the Board of Education. The School District has elected to provide employee medical/surgical/dental/vision benefits through Medical Mutual. The cost of health, dental and vision premiums are completely paid by the Board of Education.

C. Perfect Attendance Incentive

Teachers are paid an extra five days at their daily rate for perfect attendance. Teachers with unused personal days at the end of the year are paid at the rate of \$120.00 per day. Eleven and twelve month classified employees with perfect attendance receive \$325.00 and nine and ten month classified employees receive \$250.00.

D. Deferred Compensation

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan and the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 - LONG-TERM OBLIGATIONS

As a part of the deconsolidation process between the Adams County/Ohio Valley School District and Manchester Local School District, in accordance to Ohio Revised Code Section 3311.26, Manchester Local School District assumed 45.78% of the outstanding debt. The debt remains in the name of Adams County/Ohio Valley School District and Manchester Local School District sends Adams County/Ohio Valley School District the required 45.78% as payments become due.

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Amount Outstanding 7/1/06	Additions	Deductions	Amount Outstanding 6/30/07	Amounts Due in One Year
<i>Governmental Activities:</i>					
1995 School Improvement Bonds \$16,801,260 - 4.55% - 5.25%	\$15,885,660	0	\$549,360	\$15,336,300	\$595,140
2002 Energy Conservation Bonds \$509,030 - 4.33% - 5.92%	399,158	0	68,670	330,488	82,404
1998 School Improvement Bonds \$54,936 - 4.87%	27,468	0	13,734	13,734	13,734
1987 EPA Asbestos Loan \$20,119 - 0%	3,989	0	3,989	0	0
2006 OASBO Lease \$9,059,000 - 4.561%	0	9,059,000	1,237,000	7,822,000	1,170,000
2007 Fifth Third Bank Lease 134,980 - 4.615%	0	134,980	14,925	120,055	24,590
Compensated Absences	603,906	109,773	86,980	626,699	35,909
Total Governmental Activities Long-Term Obligations	<u>\$16,920,181</u>	<u>\$9,303,753</u>	<u>\$1,974,658</u>	<u>\$24,249,276</u>	<u>\$1,921,777</u>

School Improvement Bonds 1995

On May 15, 1995, Adams County/Ohio Valley School District issued \$44,000,000 in voted general obligation bonds for the purpose of building new high schools and improvements to existing buildings. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2021. On July 1, 2004, Manchester Local School District assumed \$16,801,260 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Energy Conservation Bonds 2002

On June 18, 2001, Adams County/Ohio Valley School District issued \$1,293,047 in unvoted general obligation bonds for the purpose of providing energy conservation measures. The bonds were issued for ten years with final maturity at July 2, 2011. On July 1, 2004, Manchester Local School District assumed \$509,030 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

School Improvement Bonds 1998

On August 24, 1998, Adams County/Ohio Valley School District issued \$300,000 in unvoted general obligation bonds for the purpose of acquiring a bus garage. The bonds were issued for a nine year period with final maturity at December 1, 2007. On July 1, 2004, Manchester Local School District assumed \$54,936 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

EPA Asbestos Loan

On March 25, 1987, Adams County/Ohio Valley School District obtained a loan in the amount of \$317,092 for the purpose of providing asbestos removal for the School District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty year period with final maturity during fiscal year 2007. On July 1, 2004, Manchester Local School District assumed \$20,119 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Compensated absences will be paid from the General and Food Service Funds.

The School District's overall legal debt margin was \$7,366,542 with an unvoted debt margin of \$231,806 and an Energy Conservation debt margin of \$1,755,763 at June 30, 2007.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2007, are as follows:

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds 1995

Fiscal Year			
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$595,140	\$889,311	\$1,484,451
2009	640,920	855,926	1,496,846
2010	686,700	819,405	1,506,105
2011	743,925	774,311	1,518,236
2012	801,150	720,234	1,521,384
2013-2017	5,070,135	2,629,174	7,699,309
2018-2022	6,798,330	936,144	7,734,474
Total	<u>\$15,336,300</u>	<u>\$7,624,505</u>	<u>\$22,960,805</u>

Energy Conservation Bonds 2001

Fiscal Year			
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$82,404	\$17,360	\$99,764
2009	82,404	12,482	94,886
2010	82,404	7,603	90,007
2011	83,276	2,725	86,001
Total	<u>\$330,488</u>	<u>\$40,170</u>	<u>\$370,658</u>

School Improvement Bonds 1998

Fiscal Year			
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$13,734	\$335	\$14,069

NOTE 15 – CAPITALIZED LEASES – LESSEE DISCLOSURE

In fiscal year 2007, the School District entered into a lease-purchase agreement for the construction of a new Elementary building. The School District is leasing the project from the Ohio Association of School Business Officials Lease Program through the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority has assigned U S Bank as trustee. The School District makes semi-annual lease payments to U S Bank. Interest rates are fixed. The lease is renewable annually and expires in fiscal year 2012. The intention of the School District is to renew the lease annually.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 15 – CAPITALIZED LEASES – LESSEE DISCLOSURE (continued)

In fiscal year 2007, the School District made the first and second scheduled principal payments totaling \$1,237,000. The principal amount owed on the lease at fiscal year-end is \$7,822,000.

At fiscal year-end, capital assets under this lease have been capitalized as work in process in the statement of net assets for governmental activities in the amount of \$4,281,421.

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

OASBO Lease 2006	
Fiscal Year	
Ending June 30,	Total
2008	\$1,521,801
2009	2,406,212
2010	1,785,572
2011	1,620,456
2012	1,491,255
Total	8,825,296
Less Amount Representing Interest & Fees	(1,003,296)
Present Value of Minimum Lease Payments	<u>\$7,822,000</u>

In fiscal year 2007, the School District entered into a lease-purchase agreement for the purchase of two school buses. The School District is leasing the project from Fifth Third Bank. Fifth Third Bank will retain title to the school buses during the lease term. The School District makes semi-annual lease payments to Fifth Third Bank. Interest rates are fixed. The lease is renewable annually and expires in fiscal year 2012. The intention of the School District is to renew the lease annually.

In fiscal year 2007, the School District made the first scheduled principal payment totaling \$14,925. The principal amount owed on the lease at fiscal year-end is \$120,055.

At fiscal year-end, capital assets under this lease have been capitalized as vehicles in the statement of net assets for governmental activities in the amount of \$133,480.

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 15 – CAPITALIZED LEASES – LESSEE DISCLOSURE (continued)

Fifth Third Lease 2007	
Fiscal Year	
Ending June 30,	Total
2008	\$29,850
2009	29,850
2010	29,851
2011	29,851
2012	14,926
Total	134,328
Less Amount Representing Interest	(14,273)
Present Value of Minimum Lease Payments	<u>\$120,055</u>

NOTE 16 – INTERFUND ACTIVITY

A. Interfund Transfers

Transfers made during the year-ended June 30, 2007, were as follows:

Transfer To	Transfer From
	<u>General Fund</u>
Debt Service Funds	\$1,530,507
Construction Fund	1,914,574
All Other Governmental Funds	10,001
	<u>\$3,455,082</u>

The transfers were made to make debt payments, fund the construction of the new elementary and high school renovations and cover EMIS expenditures.

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2006	(\$161,019)	\$0
Current Year Set-aside Requirement	133,556	133,556
Current Year Offset	0	(1,914,574)
Qualifying Disbursements	(174,875)	0
Set-aside Balance Carried Forward to Future Years	(\$202,338)	\$0
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$47,841 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

NOTE 19 - INSURANCE PURCHASING POOL

A. Schools of Ohio Risk Sharing Authority, Inc.

The School District participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), is a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to School District property and persons and property which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 655 Metro Place South, Suite 900, Dublin, Ohio 43017

NOTE 19 - INSURANCE PURCHASING POOL (continued)

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

The GRP's business and affairs are conducted by a five member Board of Directors. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

A lawsuit was filed against the School District on August 9, 2007. The School District is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 21 – CONSTRUCTION CONTRACTS

The School District is presently involved in the construction of the new Manchester Elementary. The following construction contracts were outstanding as of June 30, 2007.

<u>Contractor</u>	<u>Trade</u>	<u>Contract Amount</u>	<u>Outstanding Balance</u>
Tanner Stone & Co	Architects	\$ 944,437	\$ 203,483
Boone Coleman Construction	Site Work	1,163,913	4,000
J & H Structural Reinforcing	General	7,483,500	5,087,223
BB&E	HVAC	1,746,700	1,330,321
BB&E	Plumbing	649,516	373,040
Sidewinder Electric	Electrical	1,317,900	1,121,313
Emerald	Fire Protection	170,525	108,389
Structured Cabling	Tech Cabling	284,000	274,800
American Sound	Security	137,800	137,800
American Sound	Sound System	277,900	277,900
NorCom	Telephone Sys	339,000	339,000
Unger Construction	Sanitary Sys	137,700	137,700
Triad Engineers	Engineer	31,450	13,722
Total		<u>\$ 14,684,341</u>	<u>\$ 9,408,691</u>

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>FEDERAL GRANTOR/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$45,762	\$0	\$45,762
Child Nutrition Cluster:						
School Breakfast Program	05-PU-06	10.553	13,464		13,464	
	05-PU-07	10.553	55,769		55,769	
Total School Breakfast Program			69,233		69,233	
National School Snack Program	LL-P1-06	10.555	18		18	
National School Snack Program	LL-P1-07	10.555	5,848		5,848	
National School Lunch Program	LL-P4-06	10.555	30,391		30,391	
National School Lunch Program	LL-P4-07	10.555	129,002		129,002	
Total National School Lunch and Snack Programs			165,259		165,259	
Summer Food Service Program for Children	24-PU-06	10.559	10,432		10,432	
Total Child Nutrition Cluster			244,924		244,924	
Fresh Fruit and Vegetable Program	VG-S1-06	10.582	13,988		3,992	
Total U.S. Department of Agriculture			258,912	45,762	248,916	45,762
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title 1 Grants to Local Educational Agencies	C1-S1-06	84.010	39,566		44,628	
	C1-S1-07	84.010	239,516		234,177	
Total Title 1			279,082		278,805	
Special Education - Grants to States	6B-SF-06	84.027	23,560		24,141	
	6B-SF-07	84.027	270,175		269,977	
Total Special Education			293,735		294,118	
Safe and Drug Free Schools and Communities- State Grants	DR-S1-06	84.186	-1,215		0	
	DR-S1-07	84.186	11,812		10,783	
			10,597		10,783	
Innovative Educational Program Strategies	C2-S1-07	84.298	1,308		1,308	
Technology Literacy Challenge	TJ-S1-06	84.318	-1,000		0	
	TJ-S1-07	84.318	3,270		740	
			2,270		740	
Improving Teacher Quality State Grants	TR-S1-06	84.367	8,575		10,366	
	TR-S1-07	84.367	64,695		63,995	
			73,270		74,361	
Total U.S. Department of Education			660,262		660,115	
<u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u>						
Toxic Substances Compliance Monitoring Cooperative		66.701	0		3,989	
Totals			\$919,174	\$45,762	\$913,020	\$45,762

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

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

Manchester Local School District
Adams County
130 Wayne Frye Drive
Manchester, Ohio 45144

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 Manchester Local School District, Adams County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 17, 2008. 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 expressing our opinions on the financial statements, but not to opine 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted a certain matter that we reported to the District's management in a separate letter dated June 17, 2008.

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 noncompliance or other matters that we reported to the District's management in a separate letter dated June 17, 2008.

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

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

Mary Taylor, CPA
Auditor of State

June 17, 2008



Mary Taylor, CPA

Auditor of State

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

Manchester Local School District
Adams County
130 Wayne Frye Drive
Manchester, Ohio 45144

To the Board of Education:

Compliance

We have audited the compliance of Manchester Local School District, Adams County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

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 requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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www.auditor.state.oh.us

Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated June 17, 2008.

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



Mary Taylor, CPA
Auditor of State

June 17, 2008

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

MANCHESTER LOCAL SCHOOL DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 22, 2008**