

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2008***

NICOLE SPRIGGS, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Berlin Milan Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 27, 2009

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Berlin-Milan Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Berlin-Milan Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

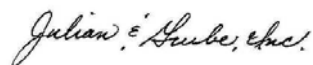
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of Berlin-Milan Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



Julian & Grube, Inc.
December 12, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Berlin Milan Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities increased \$836,204 which represents an 11.01% increase from 2007.
- General revenues accounted for \$14,018,299 in revenue or 84.04% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,661,880 or 15.96% of total revenues of \$16,680,179.
- The District had \$15,843,975 in expenses related to governmental activities; only \$2,661,880 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,018,299 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$14,266,446 in revenues and other financing sources and \$13,437,461 in expenditures. During fiscal 2008, the general fund's fund balance increased \$852,408 from \$2,791,488 to \$3,643,896.
- The District's permanent improvement fund had \$730,116 in revenues and \$581,191 in expenditures. During fiscal 2008, the permanent improvement fund's fund balance increased \$148,925 from \$877,003 to \$1,025,928.

Using the Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The District restated net assets as described in Note 3.B.

The table below provides a summary of the District's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities	Restated Governmental Activities
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 14,348,616	\$ 13,104,089
Capital assets, net	<u>3,688,447</u>	<u>3,774,538</u>
Total assets	<u>18,037,063</u>	<u>16,878,627</u>
<u>Liabilities</u>		
Current liabilities	8,809,853	8,456,554
Long-term liabilities	<u>795,250</u>	<u>826,317</u>
Total liabilities	<u>9,605,103</u>	<u>9,282,871</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,688,447	3,712,498
Restricted	1,173,864	1,024,206
Unrestricted	<u>3,569,649</u>	<u>2,859,052</u>
Total net assets	<u>\$ 8,431,960</u>	<u>\$ 7,595,756</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$8,431,960. At year-end, unrestricted net assets were \$3,569,649.

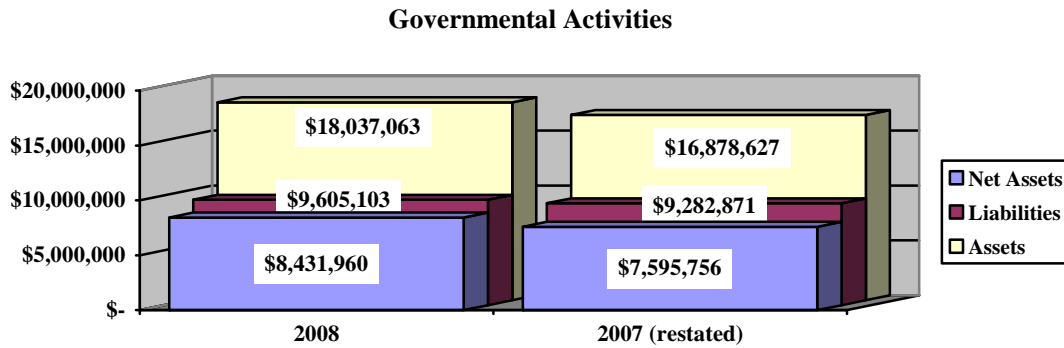
**BERLIN-MILAN LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

At year-end, capital assets represented 20.45% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of accumulated depreciation at June 30, 2008, were \$3,688,447. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$1,173,864, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,569,649 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's governmental activities assets, liabilities and net assets for June 30, 2008 and 2007:



The table below shows the change in net assets for fiscal years 2008 and 2007.

	Change in Net Assets	
	Governmental Activities 2008	Governmental Activities 2007
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,054,750	\$ 1,037,549
Operating grants and contributions	1,599,119	1,647,298
Capital grants and contributions	8,011	23,300
General revenues:		
Property taxes	6,707,774	7,100,170
Grants and entitlements	7,034,895	6,635,356
Investment earnings	211,565	274,198
Other	<u>64,065</u>	<u>22,290</u>
Total revenues	<u>16,680,179</u>	<u>16,740,161</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Change in Net Assets

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	6,736,170	6,822,448
Special	2,328,742	2,253,351
Vocational	60,447	64,638
Other	365,236	453,773
Support services:		
Pupil	836,781	883,002
Instructional staff	387,100	328,617
Board of education	28,845	32,778
Administration	1,234,420	1,206,015
Fiscal	298,502	278,120
Operations and maintenance	1,379,668	1,193,203
Pupil transportation	796,087	775,891
Central	146,484	160,040
Operations of non-instructional services	1,090	-
Food service operations	566,186	540,665
Extracurricular activities	675,646	611,449
Interest and fiscal charges	<u>2,571</u>	<u>5,251</u>
Total expenses	<u>15,843,975</u>	<u>15,609,241</u>
Change in net assets	836,204	1,130,920
Net assets at beginning of year (restated)	<u>7,595,756</u>	<u>6,464,836</u>
Net assets at end of year	<u>\$ 8,431,960</u>	<u>\$ 7,595,756</u>

Governmental Activities

Net assets of the District's governmental activities increased \$836,204. Total governmental expenses of \$15,843,975 were offset by program revenues of \$2,661,880 and general revenues of \$14,018,299. Program revenues supported 16.80% of the total governmental expenses.

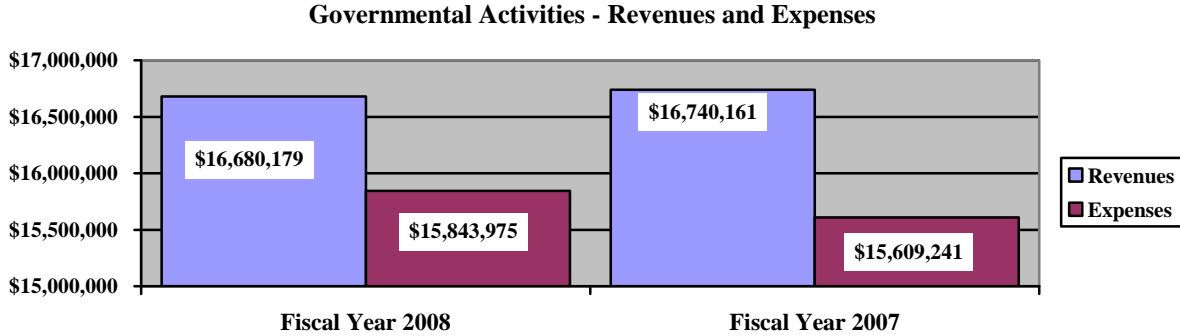
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.39% of total governmental revenue. Real estate property is reappraised every six years

The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,490,595 or 59.90% of total governmental expenses for fiscal 2008.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses				
Instruction:				
Regular	\$ 6,736,170	\$ 6,271,554	\$ 6,822,448	\$ 6,263,381
Special	2,328,742	1,412,559	2,253,351	1,341,053
Vocational	60,447	47,372	64,638	54,448
Other	365,236	365,236	453,773	453,773
Support services:				
Pupil	836,781	546,466	883,002	567,771
Instructional staff	387,100	346,943	328,617	295,355
Board of education	28,845	28,845	32,778	32,778
Administration	1,234,420	1,225,053	1,206,015	1,193,228
Fiscal	298,502	292,681	278,120	272,425
Operations and maintenance	1,379,668	1,378,979	1,193,203	1,192,603
Pupil transportation	796,087	731,401	775,891	715,649
Central	146,484	146,484	160,040	153,178
Operations of non-instructional services	1,090	128	-	-
Food service operations	566,186	(25,448)	540,665	(35,738)
Extracurricular activities	675,646	411,271	611,449	395,939
Interest and fiscal charges	2,571	2,571	5,251	5,251
Total expenses	<u>\$ 15,843,975</u>	<u>\$ 13,182,095</u>	<u>\$ 15,609,241</u>	<u>\$ 12,901,094</u>

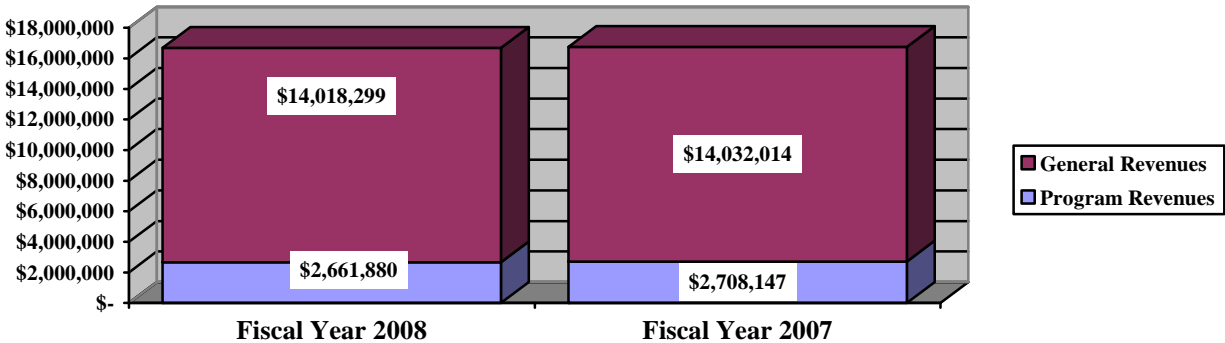
The dependence upon tax and other general revenues for governmental activities is apparent, 85.31% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.20%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$4,988,063, which is higher than last year's total of \$3,953,753. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	<u>Fund Balance</u> <u>June 30, 2008</u>	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Increase</u>
General	\$ 3,643,896	\$ 2,791,488	\$ 852,408
Permanent Improvement	1,025,928	877,003	148,925
Other Governmental	<u>318,239</u>	<u>285,262</u>	<u>32,977</u>
Total	<u>\$ 4,988,063</u>	<u>\$ 3,953,753</u>	<u>\$ 1,034,310</u>

An analysis of the general fund revenues and expenditures is provided in the section below. The increase in the fund balances of the other governmental funds is primarily due to a fund balance increase of \$48,683 in the food service fund. The increase was a result of charges for services and federal grant revenues continuing to exceed food service operation expenditures in the food service fund.

General Fund

The District's general fund balance increased \$852,408. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,184,825	\$ 6,281,107	(1.53) %
Tuition	248,360	282,605	(12.12) %
Earnings on investments	223,056	263,587	(15.38) %
Intergovernmental	7,490,416	7,112,277	5.32 %
Other revenues	<u>119,054</u>	<u>74,122</u>	60.62 %
Total	<u>\$ 14,265,711</u>	<u>\$ 14,013,698</u>	1.80 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Expenditures

Instruction	\$ 8,611,108	\$ 8,616,002	(0.06) %
Support services	4,379,476	4,261,538	2.77 %
Extracurricular activities	382,044	373,724	2.23 %
Debt service	<u>64,833</u>	<u>64,832</u>	0.00 %
 Total	 <u>\$ 13,437,461</u>	 <u>\$ 13,316,096</u>	 0.91 %

Tuition revenue decreased as a result of the decrease in open enrollment. Interest revenues decreased due to reduced interest received on the District's investments during the fiscal year. Other revenues, which are made up of rentals, contributions and donations, services provided to other entities, classroom materials and supplies and miscellaneous revenues increased primarily due to the reclassification of non-GAAP entries. All expenditures remained comparable to 2007 amounts.

Permanent Improvement Fund

The District's permanent improvement fund balance increased \$148,925. The increase in fund balance can be primarily attributed to increasing revenues, while expenses, especially in the areas of facilities acquisition and construction and pupil transportation, decreased from fiscal year 2007.

General Fund Budgeting Highlights

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

During the course of fiscal 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$14,065,433 remained unchanged in the final budgeted revenues estimate. Actual revenues and other financing sources for fiscal 2008 was \$14,133,068. This represents a \$67,635 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,218,539 were decreased to \$14,217,063 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$13,738,094, which was \$478,969 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District restated capital assets due to a reappraisal, see Note 3.B for details. At the end of fiscal year 2008, the District had \$3,688,447 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2008 balances compared to 2007:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>Restated 2007</u>
Land	\$ 469,195	\$ 469,195
Land improvements	20,318	2,485
Building and improvements	1,611,331	1,661,207
Furniture and equipment	1,156,786	1,188,123
Vehicles	<u>430,817</u>	<u>453,528</u>
Total	<u>\$ 3,688,447</u>	<u>\$ 3,774,538</u>

Total additions to capital assets for 2008 were \$346,967. The District recorded \$433,058 in depreciation expense for fiscal 2008.

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

Debt Administration

At June 30, 2008, the District no longer had any energy conservation notes outstanding. The following table summarizes the notes outstanding.

	Governmental Activities	Governmental Activities
	<u>2008</u>	<u>2007</u>
Energy conservation notes	\$ -	\$ 62,040
Total	<u>\$ -</u>	<u>\$ 62,040</u>

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Current Financial Related Activities

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

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

The District currently has an adequate cash balance to meet operating expenses for the next several years. However, in fiscal year 2009 our projections show operating expenses exceeding operating revenue and that trend is projected to continue over the remainder of the District's five-year forecast. The current cash balance is not sufficient to sustain the District throughout the present five-year forecast. The District placed a request for new funds on the November 2008 ballot. The Board and Administration will continue to monitor these projections, updating them with pertinent information as it becomes available, and utilize these projections in the decision making process.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,959,887
Receivables:	
Taxes	8,297,347
Accounts	17,755
Intergovernmental	800
Accrued interest	3,452
Prepayments.	2,289
Materials and supplies inventory	67,086
Capital assets:	
Land	469,195
Depreciable capital assets, net	3,219,252
Capital assets, net	3,688,447
Total assets	18,037,063
Liabilities:	
Accounts payable	78,737
Accrued wages and benefits	1,210,674
Pension obligation payable	308,119
Intergovernmental payable	88,336
Unearned revenue.	7,123,987
Long-term liabilities:	
Due within one year	29,061
Due in more than one year.	766,189
Total liabilities	9,605,103
Net Assets:	
Invested in capital assets	3,688,447
Restricted for:	
Capital projects	1,062,976
Locally funded programs	40,460
State funded programs.	10,949
Federally funded programs	1,693
Student activities.	46,289
Other purposes.	11,497
Unrestricted.	3,569,649
Total net assets	\$ 8,431,960

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,515,793	\$ 975,281	\$ 458,911	\$ 5,949,985
Receivables:				
Taxes	7,694,591	602,756	-	8,297,347
Accounts	16,732	-	1,023	17,755
Intergovernmental	-	-	800	800
Accrued interest	3,452	-	-	3,452
Interfund loans	800	-	-	800
Prepayments	2,122	-	167	2,289
Materials and supplies inventory	43,200	-	23,886	67,086
Restricted assets:				
Equity in pooled cash and cash equivalents	9,902	-	-	9,902
Total assets	<u>\$ 12,286,592</u>	<u>\$ 1,578,037</u>	<u>\$ 484,787</u>	<u>\$ 14,349,416</u>
Liabilities:				
Accounts payable	\$ 55,180	\$ 10,831	\$ 12,726	\$ 78,737
Accrued wages and benefits	1,106,588	-	104,086	1,210,674
Compensated absences payable	15,953	-	31	15,984
Pension obligation payable	266,500	-	41,619	308,119
Intergovernmental payable	81,050	-	7,286	88,336
Interfund loans payable	-	-	800	800
Deferred revenue	497,668	37,048	-	534,716
Unearned revenue	6,619,757	504,230	-	7,123,987
Total liabilities	<u>8,642,696</u>	<u>552,109</u>	<u>166,548</u>	<u>9,361,353</u>
Fund Balances:				
Reserved for encumbrances	257,154	185,129	32,109	474,392
Reserved for materials and supplies inventory	43,200	-	23,886	67,086
Reserved for prepayments	2,122	-	167	2,289
Reserved for property tax unavailable for appropriation	577,936	61,478	-	639,414
Reserved for unclaimed monies	1,595	-	-	1,595
Reserved for school bus purchases	9,902	-	-	9,902
Unreserved, undesignated, reported in:				
General fund	2,751,987	-	-	2,751,987
Special revenue funds	-	-	262,077	262,077
Capital projects funds	-	779,321	-	779,321
Total fund balances	<u>3,643,896</u>	<u>1,025,928</u>	<u>318,239</u>	<u>4,988,063</u>
Total liabilities and fund balances	<u>\$ 12,286,592</u>	<u>\$ 1,578,037</u>	<u>\$ 484,787</u>	<u>\$ 14,349,416</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$ 4,988,063
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,688,447
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 533,946	
Accrued interest receivable	<u>770</u>	
Total		534,716
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(779,266)</u>
Net assets of governmental activities		<u><u>\$ 8,431,960</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,184,825	\$ 600,180	\$ -	\$ 6,785,005
Tuition	248,360	-	52,030	300,390
Charges for services	-	-	391,384	391,384
Earnings on investments	223,056	-	5,420	228,476
Extracurricular	-	-	248,506	248,506
Classroom materials and fees.	41,429	-	-	41,429
Other local revenues	77,625	-	19,327	96,952
Intergovernmental - Intermediate	-	-	53,074	53,074
Intergovernmental - State	7,490,416	129,936	172,408	7,792,760
Intergovernmental - Federal	-	-	830,925	830,925
Total revenues	<u>14,265,711</u>	<u>730,116</u>	<u>1,773,074</u>	<u>16,768,901</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,231,844	177,619	206,389	6,615,852
Special.	1,953,581	-	373,523	2,327,104
Vocational.	60,447	-	-	60,447
Other.	365,236	-	-	365,236
Support services:				
Pupil.	545,505	-	287,327	832,832
Instructional staff	339,485	3,330	31,846	374,661
Board of education	28,845	-	-	28,845
Administration.	1,205,194	-	10,870	1,216,064
Fiscal	276,491	12,552	5,894	294,937
Operations and maintenance.	1,069,310	-	-	1,069,310
Pupil transportation	768,381	-	2,620	771,001
Central.	146,265	-	185	146,450
Operation of non-instructional services	-	-	1,090	1,090
Food service operations	-	-	549,174	549,174
Extracurricular activities.	382,044	-	272,452	654,496
Facilities acquisition and construction	-	387,690	4,950	392,640
Debt service:				
Principal retirement.	62,040	-	-	62,040
Interest and fiscal charges	2,793	-	-	2,793
Total expenditures	<u>13,437,461</u>	<u>581,191</u>	<u>1,746,320</u>	<u>15,764,972</u>
Excess of revenues over expenditures	<u>828,250</u>	<u>148,925</u>	<u>26,754</u>	<u>1,003,929</u>
Other financing sources:				
Sale of capital assets.	735	-	-	735
Total other financing sources	<u>735</u>	<u>-</u>	<u>-</u>	<u>735</u>
Net change in fund balances	828,985	148,925	26,754	1,004,664
Fund balances at beginning of year.	2,791,488	877,003	285,262	3,953,753
Increase in reserve for inventory	23,423	-	6,223	29,646
Fund balances at end of year	<u>\$ 3,643,896</u>	<u>\$ 1,025,928</u>	<u>\$ 318,239</u>	<u>\$ 4,988,063</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	1,004,664
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.</p>		
Capital asset additions	\$ 346,967	
Current year depreciation	<u>(433,058)</u>	
Total		(86,091)
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		29,646
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(77,231)	
Accrued interest	<u>(11,491)</u>	
Total		(88,722)
<p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		62,040
<p>Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		222
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(85,555)</u>
Change in net assets of governmental activities	\$	<u>836,204</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 6,080,000	\$ 6,080,000	\$ 6,052,313	\$ (27,687)
Tuition.	295,400	295,400	248,360	(47,040)
Earnings on investments.	224,000	224,000	219,598	(4,402)
Classroom materials and fees	37,000	37,000	41,631	4,631
Other local revenues.	28,201	28,201	47,057	18,856
Intergovernmental - State.	7,396,847	7,396,847	7,490,416	93,569
Total revenues	<u>14,061,448</u>	<u>14,061,448</u>	<u>14,099,375</u>	<u>37,927</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,921,288	10,920,154	6,358,587	4,561,567
Special.	1,126,384	1,126,267	1,953,473	(827,206)
Vocational.	14,342	14,341	63,082	(48,741)
Other.	484,310	484,260	365,235	119,025
Support services:				
Pupil.	111,065	111,053	534,218	(423,165)
Instructional staff	36,147	36,143	339,603	(303,460)
Board of education	29,703	29,700	29,845	(145)
Administration.	191,379	191,359	1,263,133	(1,071,774)
Fiscal	44,147	44,142	278,405	(234,263)
Operations and maintenance.	661,206	661,137	1,167,010	(505,873)
Pupil transportation	329,017	328,983	793,472	(464,489)
Central.	154,553	154,537	145,276	9,261
Extracurricular activities.	40,158	40,154	381,122	(340,968)
Debt service:				
Principal retirement	62,047	62,040	62,040	-
Interest and fiscal charges	2,792	2,793	2,793	-
Total expenditures	<u>14,208,538</u>	<u>14,207,063</u>	<u>13,737,294</u>	<u>469,769</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(147,090)</u>	<u>(145,615)</u>	<u>362,081</u>	<u>507,696</u>
Other financing sources (uses):				
Refund of prior year expenditure.	3,000	3,000	32,708	29,708
Advances in.	250	250	250	-
Advances (out)	(10,001)	(10,000)	(800)	9,200
Sale of capital assets	735	735	735	-
Total other financing sources (uses)	<u>(6,016)</u>	<u>(6,015)</u>	<u>32,893</u>	<u>38,908</u>
Net change in fund balance	(153,106)	(151,630)	394,974	546,604
Fund balance at beginning of year	3,656,918	3,656,918	3,656,918	-
Prior year encumbrances appropriated	160,673	160,673	160,673	-
Fund balance at end of year	<u>\$ 3,664,485</u>	<u>\$ 3,665,961</u>	<u>\$ 4,212,565</u>	<u>\$ 546,604</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 101,077	\$ 61,890
Receivables:		
Taxes	-	12,410
Accrued interest.	440	-
	<u>101,517</u>	<u>\$ 74,300</u>
Total assets.		
Liabilities:		
Accounts payable	-	\$ 206
Due to other governments	-	12,410
Due to students	-	61,684
	<u>-</u>	<u>\$ 74,300</u>
Total liabilities.		
Net Assets:		
Held in trust for scholarships.	<u>101,517</u>	
Total net assets	<u>\$ 101,517</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 1,668
Interest revenue	4,140
	5,808
Total additions.	5,808
Deductions:	
Scholarships awarded	2,000
	3,808
Change in net assets	3,808
Net assets at beginning of year	97,709
Net assets at end of year.	\$ 101,517

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 318th largest by enrollment among the 896 public school districts and community schools in the State of Ohio and is the 4th largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 55 non-certified and 111 certified employees to provide services to 1,701 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

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

EHOVE Career Center

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

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. During 2008, the District paid \$56,237 to NOECA for services. Financial information can be obtained by contacting the Erie-Huron-Ottawa Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Milan-Berlin Township Public Library

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group II Program

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code.

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

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 13 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes in the governmental funds due at June 30, 2008 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. The Erie County Commissioners waived this requirement for fiscal year 2008.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2008.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2008. All amounts reported in the budgetary statement reflect the original and final appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2008, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and non-negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$223,056, which includes \$39,683 assigned from other District funds.

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

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

G. Inventory

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

L. Fund Balance Reserves

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

B. Restatement of Net Assets

The District's net assets have been restated to reflect a reappraisal of the District's capital assets. The reappraisal of the District's capital assets had the following effect on net assets as previously reported by the governmental activities:

	<u>Governmental Activities</u>
Net assets, June 30, 2007	\$ 7,664,826
Adjustment for capital assets reappraisal	<u>(69,070)</u>
Restated net assets, June 30, 2007	<u>\$ 7,595,756</u>

See Note 8 for the effect of the change on capital assets balances as previously reported by the District at June 30, 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Preschool	\$ 5,834
Entry year program	11
Title VI-B	21,203
Title I	25,652
Title V	19
IDEA grant	6
Title II-A	95

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$706,612. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$658,902 of the District's bank balance of \$958,902 was exposed to custodial risk as discussed below, while \$300,000 was covered by the Federal Deposit Insurance Corporation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 5,411,942	\$ 5,411,942
Total	<u>\$ 5,411,942</u>	<u>\$ 5,411,942</u>

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

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,411,942	100.00
Total	<u>\$ 5,411,942</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 706,612
Investments	5,411,942
Cash on hand	<u>4,300</u>
Total	<u>\$ 6,122,854</u>
 <u>Cash and cash equivalents per statement of net assets</u>	
Governmental activities	\$ 5,959,887
Private-purpose trust funds	101,077
Agency funds	<u>61,890</u>
Total	<u>\$ 6,122,854</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2008 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 800

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

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

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie and Huron Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2008 was \$577,936 in the general fund, and \$61,478 in the permanent improvement fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2007 was \$445,424 in the general fund and \$47,277 in the permanent improvement fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 210,324,530	91.29	\$ 212,547,830	92.40
Public utility personal	12,010,380	5.21	11,679,580	5.08
Tangible personal property	<u>8,062,500</u>	<u>3.50</u>	<u>5,797,803</u>	<u>2.52</u>
Total	<u>\$ 230,397,410</u>	<u>100.00</u>	<u>\$ 230,025,213</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$66.95		\$66.95	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities	
Taxes	\$ 8,297,347
Accounts	17,755
Intergovernmental	800
Accrued Interest	<u>3,452</u>
Total	<u>\$ 8,319,354</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance		Restated
	June 30, 2007	Adjustment	Balance
	<u>June 30, 2007</u>	<u>Adjustment</u>	<u>June 30, 2007</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 469,195	\$ -	\$ 469,195
Total capital assets, not being depreciated	<u>469,195</u>	<u>-</u>	<u>469,195</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	811,792	(5,552)	806,240
Buildings and improvements	5,803,237	937,751	6,740,988
Furniture and equipment	1,745,028	589,581	2,334,609
Vehicles	1,356,532	(90,751)	1,265,781
Total capital assets, being depreciated	<u>9,716,589</u>	<u>1,431,029</u>	<u>11,147,618</u>
<i>Less: accumulated depreciation</i>			
Land improvements	(610,738)	(193,017)	(803,755)
Buildings and improvements	(3,524,583)	(1,555,198)	(5,079,781)
Furniture and equipment	(1,307,521)	161,035	(1,146,486)
Vehicles	(899,334)	87,081	(812,253)
Total accumulated depreciation	<u>(6,342,176)</u>	<u>(1,500,099)</u>	<u>(7,842,275)</u>
Total capital assets, being depreciated	<u>3,374,413</u>	<u>(69,070)</u>	<u>3,305,343</u>
Governmental activities capital assets, net	<u>\$ 3,843,608</u>	<u>\$ (69,070)</u>	<u>\$ 3,774,538</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS - (Continued)

	Restated Balance <u>06/30/2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/2008</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 469,195	\$ -	\$ -	\$ 469,195
Total capital assets, not being depreciated	<u>469,195</u>	<u>-</u>	<u>-</u>	<u>469,195</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	806,240	18,755	-	824,995
Buildings and improvements	6,740,988	78,322	-	6,819,310
Furniture and equipment	2,334,609	175,290	-	2,509,899
Vehicles	<u>1,265,781</u>	<u>74,600</u>	<u>-</u>	<u>1,340,381</u>
Total capital assets, being depreciated	<u>11,147,618</u>	<u>346,967</u>	<u>-</u>	<u>11,494,585</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(803,755)	(922)	-	(804,677)
Buildings and improvements	(5,079,781)	(128,198)	-	(5,207,979)
Furniture and equipment	(1,146,486)	(206,627)	-	(1,353,113)
Vehicles	<u>(812,253)</u>	<u>(97,311)</u>	<u>-</u>	<u>(909,564)</u>
Total accumulated depreciation	<u>(7,842,275)</u>	<u>(433,058)</u>	<u>-</u>	<u>(8,275,333)</u>
Governmental activities capital assets, net	<u>\$ 3,774,538</u>	<u>\$ (86,091)</u>	<u>\$ -</u>	<u>\$ 3,688,447</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 245,538

Support Services:

Pupil	759
Instructional staff	11,358
Administration	2,996
Fiscal	1,100
Operations and maintenance	29,385
Pupil transportation	100,688
Food service operations	20,084
Extracurricular activities	<u>21,150</u>
Total depreciation expense	<u>\$ 433,058</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding	Amounts Due in
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>One Year</u>
Governmental activities:					
Energy conservation notes	\$ 62,040	\$ -	\$ (62,040)	\$ -	\$ -
Compensated absences	<u>764,277</u>	<u>112,391</u>	<u>(81,418)</u>	<u>795,250</u>	<u>29,061</u>
Total long-term obligations, governmental activities	<u>\$ 826,317</u>	<u>\$ 112,391</u>	<u>\$ (143,458)</u>	<u>\$ 795,250</u>	<u>\$ 29,061</u>

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

- B. During a prior fiscal year, the District issued unvoted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues. These notes were retired in full in fiscal year 2008.

The following is a description of the District's notes outstanding as of June 30, 2008:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance June 30, 2007</u>	<u>Retired in Fiscal Year 2008</u>	<u>Balance June 30, 2008</u>
Energy conservation notes	4.50%	02/26/98	12/01/07	<u>\$ 62,040</u>	<u>\$ (62,040)</u>	<u>\$ -</u>
Total				<u>\$ 62,040</u>	<u>\$ (62,040)</u>	<u>\$ -</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$19,957,990 and an unvoted debt margin of \$221,755.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 10 - RISK MANAGEMENT

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

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association, a public entity risk management pool. Monthly payments are made to the Association for health, dental and prescription insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120% of the prior year's aggregate claims. Individual coverage cannot exceed \$2,000,000 for classified, certificated, and administrative in claims during their lifetime. Financial information can be obtained by writing to Grossman & Associates, Inc., 3201 Enterprise Parkway, Suite 450, Beachwood, Ohio 44122.

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

For fiscal year 2008, the District participated in the Ohio School Boards Association Workers' Compensation Group II Program ("Program"). The intent of the Program is to assist the district to manage workers' compensation costs and to potentially improve the district's current workers' compensation situation. Participation in the Program is limited to school districts that can meet the Ohio School Boards Association's edibility criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Program.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$182,795, \$193,261 and \$181,828, respectively; 48.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 11 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$801,715, \$789,213 and \$803,159, respectively; 85.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$19,016 made by the District and \$22,590 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/State Teachers Retirement System of Ohio. As of June 30, 2008, three members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$111,896, \$91,611 and \$100,979, respectively; 48.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$13,171, \$13,142 and \$14,472, respectively; 48.92 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$61,670, \$60,709 and \$61,781, respectively; 85.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(e) Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	<u>General fund</u>
Budget basis	\$ 394,974
Net adjustment for revenue accruals	166,336
Net adjustment for expenditure accruals	(13,297)
Net adjustment for other sources/uses	(32,158)
Adjustment for encumbrances	<u>313,130</u>
GAAP basis	<u>\$ 828,985</u>

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	Textbook/ Instructional <u>Materials</u>	Capital <u>Maintenance</u>
Set-aside balance as of June 30, 2007	\$ (417,679)	\$ (2,809,826)
Current year set-aside requirement	256,256	256,256
Current year offsets	(71,134)	(514,845)
Qualifying expenditures	<u>(70,235)</u>	<u>(388,880)</u>
Total	<u>\$ (302,792)</u>	<u>\$ (3,457,295)</u>
Balance carried forward to FY 2009	<u>\$ (302,792)</u>	<u>\$ (3,324,671)</u>

The District had offsets and qualifying disbursements in prior years that reduced the capital maintenance and textbook/instructional materials set-aside amounts below zero. The textbook/instructional materials and capital maintenance offset amounts may be used to reduce the set-aside requirements of future years. The negative amounts are therefore presented as being carried forward to the next fiscal year. The capital maintenance excess of qualifying expenditures may not be carried forward.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2008 follows:

Amount restricted for school bus purchases	<u>\$ 9,902</u>
--------------------------------------------	-----------------

SUPPLEMENTARY DATA

**BERLIN-MILAN LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(E) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
(C) Food Donation	10.550	2008	\$ 35,631	\$ 35,631
Total Food Donation			<u>35,631</u>	<u>35,631</u>
(B) National School Lunch Program	10.555	2008	166,771	166,771
Total National School Lunch Program			<u>166,771</u>	<u>166,771</u>
Total U.S. Department of Agriculture			<u>202,402</u>	<u>202,402</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	2007	15,921	27,709
Title I Grants to Local Educational Agencies	84.010	2008	180,249	176,912
Total Title I Grants to Local Educational Agencies			<u>196,170</u>	<u>204,621</u>
Special Education Cluster:				
(D) Special Education Grants to States	84.027	2007	-	4,032
(D) Special Education Grants to States	84.027	2008	388,446	367,295
Total Special Education Grants to States			<u>388,446</u>	<u>371,327</u>
(D) Special Education Preschool Grants	84.173	2008	19,474	19,474
Total Special Education Preschool Grants			<u>19,474</u>	<u>19,474</u>
Total Special Education Cluster			<u>407,920</u>	<u>390,801</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2007	-	1,220
Safe and Drug-Free Schools and Communities State Grants	84.186	2008	5,917	4,224
Total Safe and Drug-Free Schools and Communities State Grants			<u>5,917</u>	<u>5,444</u>
State Grants for Innovative Programs	84.298	2008	3,595	3,595
Total State Grants for Innovative Programs			<u>3,595</u>	<u>3,595</u>
Education Technology State Grants	84.318	2008	2,109	2,109
Total Education Technology State Grants			<u>2,109</u>	<u>2,109</u>
Improving Teacher Quality State Grants	84.367	2008	46,291	45,742
Total Improving Teacher Quality State Grants			<u>46,291</u>	<u>45,742</u>
Total U.S. Department of Education			<u>662,002</u>	<u>652,312</u>
Total Federal Financial Assistance			<u>\$ 864,404</u>	<u>\$ 854,714</u>

- (A) This schedule was prepared on the cash basis of accounting
- (B) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at the entitlement value.
- (D) Included as part of "Special Education Grant Cluster" in determining major programs.
- (E) OAKS did not assign pass-through numbers for fiscal year 2008.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Berlin-Milan Local School District's basic financial statements and have issued our report thereon dated December 12, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

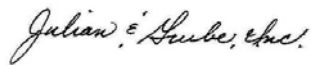
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Board of Education
Berlin-Milan Local School District

Compliance and Other Matters

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

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



Julian & Grube, Inc.
December 12, 2008



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

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

Compliance

We have audited the compliance of Berlin-Milan Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2008. Berlin-Milan Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Berlin-Milan Local School District's management. Our responsibility is to express an opinion on Berlin-Milan Local School District's compliance based on our audit.

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

In our opinion, Berlin-Milan Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

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

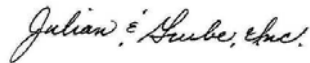
Board of Education
Berlin-Milan Local School District

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

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

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

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



Julian & Grube, Inc.
December 12, 2008

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

BERLIN MILAN LOCAL SCHOOL DISTRICT
ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 10, 2009