

**BERLIN-MILAN LOCAL  
SCHOOL DISTRICT**

**ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005***

**NICOLE SPRIGGS, TREASURER**





**Auditor of State  
Betty Montgomery**

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 and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 19, 2006

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**BERLIN-MILAN LOCAL SCHOOL DISTRICT**  
**ERIE COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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# Julian & Grube, Inc.

*Serving Ohio Local Governments*

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

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, (the "District") as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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 the Berlin-Milan Local School District, Erie County, Ohio, as of June 30, 2005, 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.

As disclosed in Note 3 to the financial statements, the District implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

Julian & Grube, Inc.  
November 23, 2005



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The 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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$257,214 which represents a 4.57% decrease from 2004.
- General revenues accounted for \$13,015,003 in revenue or 86.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,960,711 or 13.09% of total revenues of \$14,975,714.
- The District had \$15,232,928 in expenses related to governmental activities; only \$1,960,711 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 \$13,015,003 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$12,861,537 in revenues and other financing sources and \$13,056,374 in expenditures. During fiscal 2005, the general fund's fund balance decreased \$190,048 from \$1,721,699 to \$1,531,651.
- The District's permanent improvement fund had \$734,958 in revenues and \$290,041 in expenditures. During fiscal 2005, the permanent improvement fund's fund balance increased \$444,917 from \$191,802 to \$636,719.

**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, 2005  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" 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.

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

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***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 21-44 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities 2005	Governmental Activities 2004
<b><u>Assets</u></b>		
Current and other assets	\$ 10,289,217	\$ 10,456,104
Capital assets	<u>3,472,647</u>	<u>3,677,071</u>
Total assets	<u>13,761,864</u>	<u>14,133,175</u>
<b><u>Liabilities</u></b>		
Current liabilities	7,572,521	7,707,939
Long-term liabilities	<u>816,805</u>	<u>795,484</u>
Total liabilities	<u>8,389,326</u>	<u>8,503,423</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,294,426	3,444,484
Restricted	885,388	329,668
Unrestricted	<u>1,192,724</u>	<u>1,855,600</u>
Total net assets	<u>\$ 5,372,538</u>	<u>\$ 5,629,752</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$5,372,538. At year-end, unrestricted net assets were \$1,192,724.

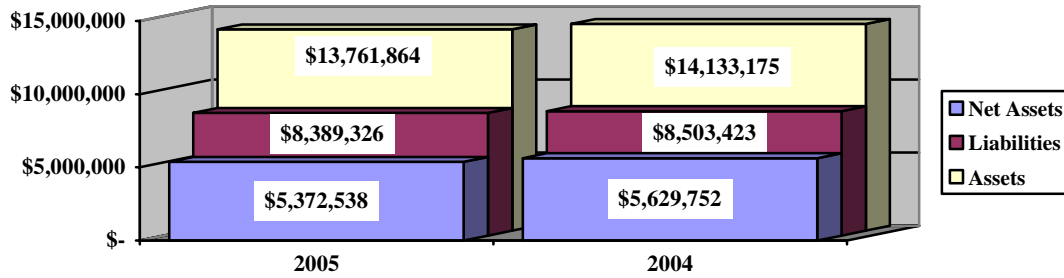
At year-end, capital assets represented 25.23% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets invested, net of related debt at June 30, 2005, were \$3,294,426. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$885,388, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,192,724 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 775,853	\$ 771,861
Operating grants and contributions	1,069,765	946,498
Capital grants and contributions	115,093	7,124
General revenues:		
Property taxes	6,311,471	6,774,002
Grants and entitlements	6,587,046	6,633,566
Investment earnings	86,667	44,992
Other	29,819	23,391
Total revenues	<u>14,975,714</u>	<u>15,201,434</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Change in Net Assets**

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	6,889,303	7,096,615
Special	1,966,939	1,909,117
Vocational	95,635	90,432
Other	295,624	254,799
Support services:		
Pupil	855,993	849,751
Instructional staff	368,573	591,753
Board of education	45,493	27,283
Administration	1,173,133	1,289,772
Fiscal	310,319	299,758
Operations and maintenance	1,222,671	1,225,975
Pupil transportation	739,657	729,368
Central	141,652	134,799
Operations of non-instructional services	16,900	1,198
Food service operations	564,995	544,836
Extracurricular activities	536,231	691,922
Interest and fiscal charges	<u>9,810</u>	<u>43,102</u>
Total expenses	<u>15,232,928</u>	<u>15,780,480</u>
Change in net assets	(257,214)	(579,046)
Net assets at beginning of year	<u>5,629,752</u>	<u>6,208,798</u>
Net assets at end of year	<u>\$ 5,372,538</u>	<u>\$ 5,629,752</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$257,214. Total governmental expenses of \$15,232,928 were offset by program revenues of \$1,960,711 and general revenues of \$13,015,003. Program revenues supported 12.87% of the total governmental expenses.

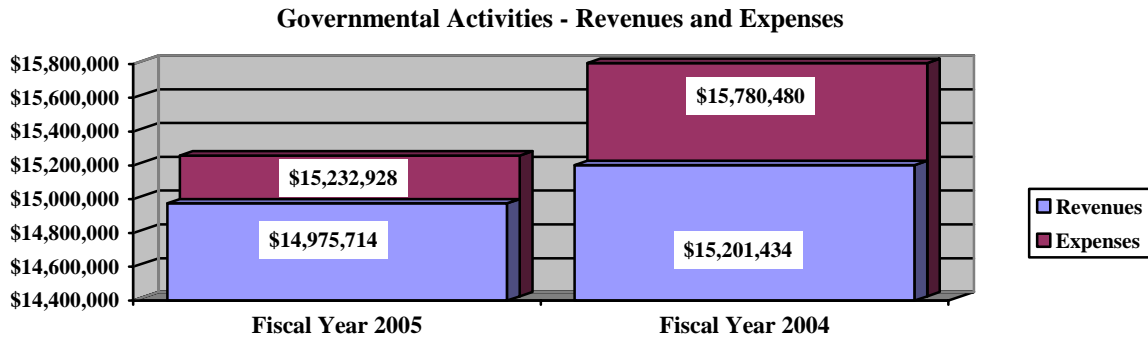
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 86.13% of total governmental revenue. Real estate property is reappraised every six years

The largest expense of the District is for instructional programs. Instruction expenses totaled \$9,247,501 or 60.71% of total governmental expenses for fiscal 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



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.

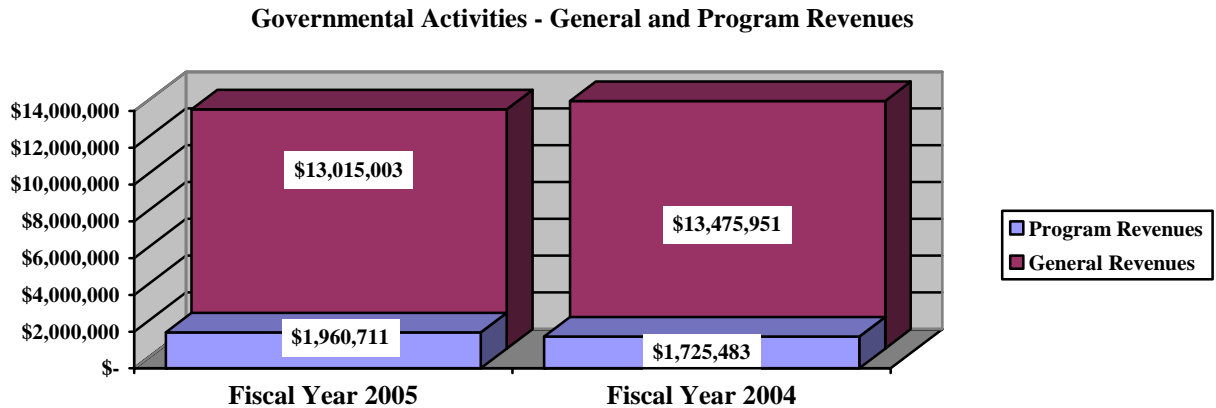
	<b>Governmental Activities</b>			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 6,889,303	\$ 6,540,074	\$ 7,096,615	\$ 6,767,318
Special	1,966,939	1,602,473	1,909,117	1,607,471
Vocational	95,635	95,635	90,432	90,432
Other	295,624	295,624	254,799	254,799
Support services:				
Pupil	855,993	575,417	849,751	771,275
Instructional staff	368,573	317,235	591,753	379,576
Board of education	45,493	45,493	27,283	27,283
Administration	1,173,133	1,160,285	1,289,772	1,272,550
Fiscal	310,319	304,739	299,758	293,199
Operations and maintenance	1,222,671	1,121,963	1,225,975	1,218,851
Pupil transportation	739,657	737,972	729,368	729,368
Central	141,652	141,652	134,799	134,799
Operations of non-instructional services	16,900	16,900	1,198	(122)
Food service operations	564,995	8,273	544,836	12,985
Extracurricular activities	536,231	298,672	691,922	452,111
Interest and fiscal charges	9,810	9,810	43,102	43,102
<b>Total expenses</b>	<u>\$ 15,232,928</u>	<u>\$ 13,272,217</u>	<u>\$ 15,780,480</u>	<u>\$ 14,054,997</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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The dependence upon tax and other general revenues for governmental activities is apparent, 92.28% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.13%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,392,005, which is higher than last year's total of \$2,088,631. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	<u>Decrease</u>
General	\$ 1,531,651	\$ 1,721,699	\$ (190,048)
Permanent Improvement	636,719	191,802	444,917
Other Governmental	<u>223,635</u>	<u>175,130</u>	<u>48,505</u>
Total	<u>\$ 2,392,005</u>	<u>\$ 2,088,631</u>	<u>\$ 303,374</u>

**General Fund**

The District's general fund balance decreased \$190,048. The decrease in fund balance can be attributed to decreasing expenditures still being more than increased revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	<u>2005</u>	<u>Restated</u> <u>2004</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,040,859	\$ 5,838,997	3.46 %
Tuition	57,953	57,475	0.83 %
Earnings on investments	84,338	44,404	89.93 %
Intergovernmental	6,587,046	6,560,122	0.41 %
Other revenues	<u>77,630</u>	<u>66,118</u>	17.41 %
Total	<u>\$ 12,847,826</u>	<u>\$ 12,567,116</u>	2.23 %
<b><u>Expenditures</u></b>			
Instruction	\$ 8,476,721	\$ 8,393,854	0.99 %
Support services	4,165,970	4,711,680	(11.58) %
Extracurricular activities	348,851	410,531	(15.02) %
Facilities acquisition and construction	-	29,432	(100.00) %
Debt service	<u>64,832</u>	<u>15,966</u>	306.06 %
Total	<u>\$ 13,056,374</u>	<u>\$ 13,561,463</u>	(3.72) %

***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 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,586,674, which approximates the original budgeted revenues estimate of \$12,807,932. Actual revenues and other financing sources for fiscal 2005 was \$12,793,798. This represents a \$207,124 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,932,630 were increased to \$13,243,695 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$13,193,068, which was \$50,627 less than the final budget appropriations.

***Permanent Improvement Fund***

The District's permanent improvement fund balance increased \$444,917. The increase in fund balance can be primarily attributed to decreasing expenditures, especially in the areas of facilities acquisition and construction and regular instruction, while revenues remained relatively unchanged.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$3,472,647 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The following table shows fiscal 2005 balances compared to 2004:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 469,195	\$ 469,195
Land improvements	145,395	85,008
Building and improvements	2,055,486	2,114,676
Furniture and equipment	366,191	461,365
Vehicles	<u>436,380</u>	<u>546,827</u>
Total	<u>\$ 3,472,647</u>	<u>\$ 3,677,071</u>

Total additions to capital assets for 2005 were \$137,863 and total disposals were \$32,544 (net of accumulated depreciation). The District recorded \$309,743 in depreciation expense for fiscal 2005.

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

***Debt Administration***

At June 30, 2005, the District had \$178,221 in energy conservation notes outstanding. Of this total, \$56,812 is due within one year and \$121,409 is due within greater than one year. The following table summarizes the notes outstanding.

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Energy conservation notes	\$ 178,221	\$ 232,587
Total	<u>\$ 178,221</u>	<u>\$ 232,587</u>

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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**Current Financial Related Activities**

Consistent with many school districts in Ohio, Berlin-Milan Local Schools is faced with the difficult challenges of maintaining the highest standards of education to 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 finding as sources of revenue.

The District does not anticipate a significant growth in State revenue in the foreseeable future. With the recent elimination of the tangible personal property tax over the next four years, the concern is that this funding change will have a 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 through fiscal year 2008, thanks to the recent passage (May 2005) of a 3.9 mil Emergency Levy that will generate \$875,000 each year for five years. However, in fiscal year 2005 operating expenses exceeded operating revenue and that trend is projected to continue over the District's five-year forecast. 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 Board, Administration, and Staff are committed to working with the community in order to maintain a safe, effective, and efficient school system.

**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, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 3,636,385
Receivables:	
Taxes . . . . .	6,516,252
Accounts . . . . .	11,899
Intergovernmental . . . . .	76,999
Accrued interest . . . . .	7,788
Prepayments . . . . .	7,937
Materials and supplies inventory . . . . .	31,957
Capital assets:	
Land . . . . .	469,195
Depreciable capital assets, net . . . . .	3,003,452
Capital assets, net. . . . .	3,472,647
 Total assets. . . . .	 13,761,864
 <b>Liabilities:</b>	
Accounts payable. . . . .	131,002
Accrued wages and benefits . . . . .	1,486,303
Pension obligation payable. . . . .	326,508
Intergovernmental payable . . . . .	29,519
Deferred revenue . . . . .	5,599,013
Accrued interest payable . . . . .	176
Long-term liabilities:	
Due within one year. . . . .	201,585
Due in more than one year . . . . .	615,220
Total liabilities . . . . .	8,389,326
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,294,426
Restricted for:	
Capital projects . . . . .	657,622
Locally funded programs . . . . .	14,903
State funded programs . . . . .	28,480
Federally funded programs . . . . .	70,660
Student activities . . . . .	37,919
Other purposes . . . . .	75,804
Unrestricted. . . . .	1,192,724
Total net assets . . . . .	\$ 5,372,538

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 6,889,303	\$ 156,946	\$ 177,898	\$ 14,385	\$ (6,540,074)
Special . . . . .	1,966,939	-	364,466	-	(1,602,473)
Vocational . . . . .	95,635	-	-	-	(95,635)
Other . . . . .	295,624	-	-	-	(295,624)
Support services:					
Pupil . . . . .	855,993	-	280,576	-	(575,417)
Instructional staff . . . . .	368,573	15,443	35,895	-	(317,235)
Board of education . . . . .	45,493	-	-	-	(45,493)
Administration . . . . .	1,173,133	2,758	10,090	-	(1,160,285)
Fiscal . . . . .	310,319	-	5,580	-	(304,739)
Operations and maintenance . . . . .	1,222,671	-	-	100,708	(1,121,963)
Pupil transportation . . . . .	739,657	-	1,685	-	(737,972)
Central . . . . .	141,652	-	-	-	(141,652)
Operation of					
non-instructional services . . . . .	16,900	-	-	-	(16,900)
Food service operations . . . . .	564,995	363,147	193,575	-	(8,273)
Extracurricular activities . . . . .	536,231	237,559	-	-	(298,672)
Interest and fiscal charges . . . . .	9,810	-	-	-	(9,810)
Total governmental activities . . . . .	<u>\$ 15,232,928</u>	<u>\$ 775,853</u>	<u>\$ 1,069,765</u>	<u>\$ 115,093</u>	<u>(13,272,217)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
					5,683,719
					627,752
					6,587,046
					86,667
					29,819
					13,015,003
					(257,214)
					5,629,752
					\$ 5,372,538

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,546,159	\$ 600,826	\$ 413,596	\$ 3,560,581
Receivables:				
Taxes . . . . .	5,880,375	635,877	-	6,516,252
Accounts . . . . .	10,879	-	1,020	11,899
Intergovernmental . . . . .	-	-	76,999	76,999
Accrued interest . . . . .	7,788	-	-	7,788
Interfund loans . . . . .	2,620	-	-	2,620
Prepayments . . . . .	7,911	-	26	7,937
Materials and supplies inventory . . . . .	11,078	-	20,879	31,957
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	75,804	-	-	75,804
Total assets . . . . .	<u>\$ 8,542,614</u>	<u>\$ 1,236,703</u>	<u>\$ 512,520</u>	<u>\$ 10,291,837</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 41,265	\$ 43,057	\$ 46,680	\$ 131,002
Accrued wages and benefits . . . . .	1,366,674	-	119,629	1,486,303
Compensated absences payable . . . . .	53,079	-	-	53,079
Pension obligation payable . . . . .	272,789	-	53,719	326,508
Intergovernmental payable . . . . .	26,898	-	2,621	29,519
Interfund loans payable . . . . .	-	-	2,620	2,620
Deferred revenue . . . . .	5,250,258	556,927	63,616	5,870,801
Total liabilities . . . . .	<u>7,010,963</u>	<u>599,984</u>	<u>288,885</u>	<u>7,899,832</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	62,037	74,475	104,525	241,037
Reserved for materials and supplies inventory . . . . .	11,078	-	20,879	31,957
Reserved for prepayments . . . . .	7,911	-	26	7,937
Reserved for property tax unavailable for appropriation . . . . .	631,175	78,950	-	710,125
Reserved for school bus purchases . . . . .	75,804	-	-	75,804
Unreserved, undesignated, reported in:				
General fund . . . . .	743,646	-	-	743,646
Special revenue funds . . . . .	-	-	98,084	98,084
Capital projects funds . . . . .	-	483,294	121	483,415
Total fund balances . . . . .	<u>1,531,651</u>	<u>636,719</u>	<u>223,635</u>	<u>2,392,005</u>
Total liabilities and fund balances . . . . .	<u>\$ 8,542,614</u>	<u>\$ 1,236,703</u>	<u>\$ 512,520</u>	<u>\$ 10,291,837</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, 2005

<b>Total governmental fund balances</b>		\$ 2,392,005
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,472,647
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes	\$ 207,114	
Intergovernmental revenue	62,051	
Accounts receivable	1,565	
Accrued interest	<u>1,058</u>	
Total		271,788
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(585,505)	
Energy conservation notes payable	(178,221)	
Accrued interest payable	<u>(176)</u>	
Total		<u>(763,902)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 5,372,538</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, 2005

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,040,859	\$ 650,874	\$ -	\$ 6,691,733
Tuition. . . . .	57,953	-	55,154	113,107
Charges for services. . . . .	-	-	363,147	363,147
Earnings on investments. . . . .	84,338	-	1,271	85,609
Extracurricular. . . . .	15,590	-	220,404	235,994
Classroom materials and fees . . . . .	45,540	-	-	45,540
Other local revenues. . . . .	16,500	-	29,819	46,319
Intergovernmental - intermediate. . . . .	-	-	18,908	18,908
Intergovernmental - state. . . . .	6,587,046	84,084	234,008	6,905,138
Intergovernmental - federal . . . . .	-	-	858,797	858,797
Total revenues . . . . .	<u>12,847,826</u>	<u>734,958</u>	<u>1,781,508</u>	<u>15,364,292</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,516,522	75,603	230,627	6,822,752
Special. . . . .	1,571,357	-	377,632	1,948,989
Vocational. . . . .	93,218	-	-	93,218
Other. . . . .	295,624	-	-	295,624
Support services:				
Pupil. . . . .	579,977	10,189	269,601	859,767
Instructional staff . . . . .	263,633	46,208	44,084	353,925
Board of education . . . . .	45,493	-	-	45,493
Administration. . . . .	1,156,033	-	11,396	1,167,429
Fiscal . . . . .	279,742	13,117	5,569	298,428
Operations and maintenance. . . . .	1,050,473	-	-	1,050,473
Pupil transportation . . . . .	648,967	-	1,900	650,867
Central. . . . .	141,652	-	-	141,652
Food service operations . . . . .	-	-	564,222	564,222
Extracurricular activities. . . . .	348,851	-	223,202	572,053
Facilities acquisition and construction . . . . .	-	144,924	-	144,924
Debt service:				
Principal retirement . . . . .	54,366	-	-	54,366
Interest and fiscal charges . . . . .	10,466	-	-	10,466
Total expenditures . . . . .	<u>13,056,374</u>	<u>290,041</u>	<u>1,728,233</u>	<u>15,074,648</u>
Excess of revenues over (under) expenditures . . . . .	<u>(208,548)</u>	<u>444,917</u>	<u>53,275</u>	<u>289,644</u>
<b>Other financing sources:</b>				
Sale of capital assets. . . . .	13,711	-	-	13,711
Total other financing sources. . . . .	<u>13,711</u>	<u>-</u>	<u>-</u>	<u>13,711</u>
Net change in fund balances . . . . .	(194,837)	444,917	53,275	303,355
<b>Fund balances</b>				
at beginning of year (restated). . . . .	1,721,699	191,802	175,130	2,088,631
<b>Increase (decrease)</b>				
in reserve for inventory . . . . .	4,789	-	(4,770)	19
Fund balances at end of year. . . . .	<u>\$ 1,531,651</u>	<u>\$ 636,719</u>	<u>\$ 223,635</u>	<u>\$ 2,392,005</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, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	303,355
<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	\$ 137,863	
Current year depreciation	<u>(309,743)</u>	
Total		(171,880)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(32,544)
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		19
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(380,262)	
Intergovernmental	(10,939)	
Interest	1,058	
Extracurricular	<u>1,565</u>	
Total		(388,578)
<p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		54,366
<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>		
		656
<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>(22,608)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(257,214)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,806,326	\$ 5,706,021	\$ 5,818,295	\$ 112,274
Tuition . . . . .	42,180	41,451	72,892	31,441
Earnings on investments . . . . .	76,318	75,000	76,287	1,287
Extracurricular . . . . .	12,720	12,500	15,590	3,090
Classroom materials and fees . . . . .	41,212	40,500	45,279	4,779
Other local revenues . . . . .	18,316	18,000	15,255	(2,745)
Intergovernmental - State . . . . .	6,660,040	6,544,987	6,587,046	42,059
Total revenue . . . . .	<u>12,657,112</u>	<u>12,438,459</u>	<u>12,630,644</u>	<u>192,185</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,327,602	6,479,933	6,554,340	(74,407)
Special . . . . .	1,589,092	1,627,348	1,586,580	40,768
Vocational . . . . .	92,136	94,354	93,885	469
Other . . . . .	251,740	257,800	295,624	(37,824)
Support services:				
Pupil . . . . .	656,008	671,801	613,207	58,594
Instructional staff . . . . .	308,630	316,060	264,418	51,642
Board of education . . . . .	28,347	29,030	36,642	(7,612)
Administration . . . . .	1,185,263	1,213,797	1,178,466	35,331
Fiscal . . . . .	282,289	289,085	281,328	7,757
Operations and maintenance . . . . .	968,960	992,010	1,074,179	(82,169)
Pupil transportation . . . . .	643,716	659,213	647,880	11,333
Central . . . . .	134,892	138,140	138,363	(223)
Extracurricular activities . . . . .	384,388	393,642	360,704	32,938
Facilities acquisition and construction . . . . .	11,147	11,415	-	11,415
Debt service:				
Principal retirement . . . . .	57,375	58,756	54,366	4,390
Interest and fiscal charges . . . . .	11,045	11,311	10,466	845
Total expenditures . . . . .	<u>12,932,630</u>	<u>13,243,695</u>	<u>13,190,448</u>	<u>53,247</u>
Excess of revenues over (under) expenditures . . . . .	<u>(275,518)</u>	<u>(805,236)</u>	<u>(559,804)</u>	<u>245,432</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	-	-	1,228	1,228
Advances in . . . . .	150,820	148,215	148,215	-
Advances (out) . . . . .	-	-	(2,620)	(2,620)
Sale of capital assets . . . . .	-	-	13,711	13,711
Total other financing sources (uses) . . . . .	<u>150,820</u>	<u>148,215</u>	<u>160,534</u>	<u>12,319</u>
Net change in fund balance . . . . .	(124,698)	(657,021)	(399,270)	257,751
<b>Fund balance at beginning of year . . . . .</b>	2,783,169	2,783,169	2,783,169	-
<b>Prior year encumbrances appropriated . . . . .</b>	143,442	143,442	143,442	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 2,801,913</u>	<u>\$ 2,269,590</u>	<u>\$ 2,527,341</u>	<u>\$ 257,751</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2005

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 73,179
Receivables:	
Taxes . . . . .	150,095
Prepayments . . . . .	750
Total assets. . . . .	\$ 224,024
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 5,314
Due to other governments . . . . .	150,095
Due to students . . . . .	68,615
Total liabilities. . . . .	\$ 224,024

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The Berlin-Milan Local School District (the "District") is located in Erie County 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 311<sup>th</sup> largest by enrollment among the 614 public and community school districts in the state, and the 4th largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 76 non-certified and 124 certified employees to provide services to 1,832 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'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 organizations' government 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). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*JOINTLY GOVERNED ORGANIZATIONS*

Bay Area Council of Governments (BACG)

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

EHOVE Career Center

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

Northern Ohio Educational Computer Association (NOECA)

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

RELATED ORGANIZATION

Milan Public Library

The Library is a distinct political subdivision of the State of Ohio governed by a board of trustees. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel and does not depend on the District for operational subsidies. In 1997 the District passed a tax renewal of .8 mills on behalf of the Library.

The District also participates in two insurance group purchasing pools, described in Note 10.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**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 is 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, construction, or improving of permanent improvement.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 does not have trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

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

**D. Basis of Accounting**

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

*Revenues - Exchange and 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).



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used 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. Unused donated commodities are reported as deferred revenue.

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

**E. Budgets**

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

1. Prior to January 15 of the preceding year, 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 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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 is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate 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 Amended Certificate issued for fiscal year 2005.
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 budgetary statement comparisons at the fund and 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 and encumbrances 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.
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 2005. 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 2005, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$84,338, which includes \$17,867 assigned from other District funds.

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the District maintained 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

**L. Fund Balance Reserves**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District 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 bus purchases (See Note 15).

The District applies restricted resources 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute for bus purchases. See Note 15 for details.

**Q. 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.

**R. 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 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

During the previous year, the Permanent Improvement fund was classified as a nonmajor fund with a fund balance of \$191,802; however, this fund is reported as a major fund for the fiscal year ended June 30, 2005.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,832,448	\$ 191,802	\$ 197,703	\$ 2,221,953
GASB Technical Bulletin No. 2004-2	<u>(110,749)</u>	<u>-</u>	<u>(22,573)</u>	<u>(133,322)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 1,721,699</u>	<u>\$ 191,802</u>	<u>\$ 175,130</u>	<u>\$ 2,088,631</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Chapter I	\$ 8,327
Entry Year Programs	2
Preschool Grant for the Handicapped	1,968

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. 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 results from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 State Treasury Asset Reserve of Ohio (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.

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 \$1,000 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".



**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$413,197. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$404,680 of the District's bank balance of \$604,680 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

**C. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>
		6 months or less
STAR Ohio	\$ 2,296,722	\$ 2,296,722
FHLMC	499,220	499,220
FHLB	499,425	499,425
	<u>\$ 3,295,367</u>	<u>\$ 3,295,367</u>

The weighted average maturity of investments is .02 years.

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

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

*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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,296,722	69.70%
FHLMC	499,220	15.15%
FHLB	499,425	15.15%
	<u>\$ 3,295,367</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, 2005

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 413,197
Investments	3,295,367
Cash on hand	<u>1,000</u>
Total	<u>\$ 3,709,564</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,636,385
Agency funds	<u>73,179</u>
Total	<u>\$ 3,709,564</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2005 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	\$ 2,620

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; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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.

The District receives property taxes from Erie and Huron Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$631,175 in the general fund, and \$78,950 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$408,611 in the general fund and \$52,706 in the permanent improvement fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 182,918,270	82.88	\$ 186,813,170	83.39
Public utility personal	14,380,320	6.52	13,779,810	6.15
Tangible personal property	<u>23,390,765</u>	<u>10.60</u>	<u>23,427,885</u>	<u>10.46</u>
Total	<u>\$ 220,689,355</u>	<u>100.00</u>	<u>\$ 224,020,865</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$62.05		\$62.05	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 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 items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities**

Taxes	\$ 6,516,252
Accounts	11,899
Intergovernmental	76,999
Accrued Interest	<u>7,788</u>
Total	<u>\$ 6,612,938</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 469,195	\$ -	\$ -	\$ 469,195
Total capital assets, not being depreciated	<u>469,195</u>	<u>-</u>	<u>-</u>	<u>469,195</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	674,299	65,000	-	739,299
Buildings and improvements	5,306,860	37,569	-	5,344,429
Furniture and equipment	1,990,186	25,230	(268,701)	1,746,715
Vehicles	1,333,139	10,064	(62,339)	1,280,864
Total capital assets, being depreciated	<u>9,304,484</u>	<u>137,863</u>	<u>(331,040)</u>	<u>9,111,307</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(589,291)	(4,613)	-	(593,904)
Buildings and improvements	(3,192,184)	(96,759)	-	(3,288,943)
Furniture and equipment	(1,528,821)	(93,972)	242,269	(1,380,524)
Vehicles	(786,312)	(114,399)	56,227	(844,484)
Total accumulated depreciation	<u>(6,096,608)</u>	<u>(309,743)</u>	<u>298,496</u>	<u>(6,107,855)</u>
Governmental activities capital assets, net	<u>\$ 3,677,071</u>	<u>\$ (171,880)</u>	<u>\$ (32,544)</u>	<u>\$ 3,472,647</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 113,448
Special	4,037
Vocational	1,760
<u>Support Services:</u>	
Pupil	1,369
Instructional staff	13,614
Administration	3,454
Fiscal	2,153
Operations and maintenance	30,826
Pupil transportation	93,177
Food service operations	16,727
Extracurricular activities	<u>29,178</u>
Total depreciation expense	<u>\$ 309,743</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. The general obligation bonds are voted issues for school building improvement projects. General obligation bonds are direct obligations of the District for which its full faith, credit, and resources are pledged. These bonds are payable from a .85 (average) mill tax levied on all taxable property in the District. Payments of principal and interest relating to these bonds are recorded as expenditures in the general and debt service funds.

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 and debt service funds; 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.

- B. The following is a description of the District’s notes and bonds outstanding as of June 30, 2005:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance July 1, 2004</u>	<u>Retired in Fiscal 2005</u>	<u>Balance June 30, 2005</u>
Energy conservation notes	4.50%	02/26/98	12/01/07	\$ 232,587	\$ (54,366)	\$ 178,221
Total				<u>\$ 232,587</u>	<u>\$ (54,366)</u>	<u>\$ 178,221</u>

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

<u>Fiscal Year Ending</u>	<u>Energy Conservation Notes</u>
2006	\$ 64,832
2007	64,832
2008	<u>64,832</u>
Total	194,496
Less interest:	<u>(16,275)</u>
Total	<u>\$ 178,221</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

D. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2005</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
Energy conservation notes	\$ 232,587	\$ -	\$ (54,366)	\$ 178,221	\$ 56,812
Compensated absences	<u>562,897</u>	<u>146,500</u>	<u>(70,813)</u>	<u>638,584</u>	<u>144,773</u>
Total long-term obligations, governmental activities	<u>\$ 795,484</u>	<u>\$ 146,500</u>	<u>\$ (125,179)</u>	<u>\$ 816,805</u>	<u>\$ 201,585</u>

**E. 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 effects of these debt limitations at June 30, 2005 are a voted debt margin of \$202,231,878 and an unvoted debt margin of \$2,247,021 and an unvoted energy conservation debt margin of \$20,044,967.

**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 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. There has been no significant reduction in amounts of insurance coverage from 2004.

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 \$1,000,000 for classified employees and \$2,000,000 for certificated/administrative in claims during their lifetime. Financial information can be obtained by writing to Group Healthcare, Greenwood Center, 1616 East Wooster, #20, Bowling Green Ohio 43402.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 10 - RISK MANAGEMENT - (Continued)**

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$261,027, \$288,244, and \$272,205, respectively; 60.44% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$103,266 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$874,672, \$856,209, and \$799,531, respectively; 82.87% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$149,868 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$12,052 made by the District and \$16,293 made by plan members.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$62,477 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$95,610 during the 2005 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**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).

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	\$ (399,270)
Net adjustment for revenue accruals	217,182
Net adjustment for expenditure accruals	39,847
Net adjustment for other sources/uses	(146,823)
Adjustment for encumbrances	<u>94,227</u>
GAAP basis	<u>\$ (194,837)</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**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, 2005, the reserve activity was as follows:

	Textbook <u>Reserve</u>	Capital Maintenance <u>Reserve</u>
Set-aside cash balance as of June 30, 2004	\$ (460,866)	\$ (2,224,335)
Current year set-aside requirement	251,339	251,339
Current year offsets	(79,716)	(535,379)
Qualifying expenditures	<u>(213,271)</u>	<u>(249,581)</u>
Total	<u>\$ (502,514)</u>	<u>\$ (2,757,956)</u>
Balance carried forward to FY 2006	<u>\$ (502,514)</u>	<u>\$ (2,224,335)</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 15 - STATUTORY RESERVES - (Continued)**

The District had offsets and qualifying expenditures during the year that reduced the capital maintenance and textbook set-asides below zero; the excess textbook amounts may be carried forward to reduce the set-aside requirements of future years; however, these extra amounts for the capital acquisition set-aside may not be carried forward.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$75,804 for school bus reserve is in the general fund on the governmental funds balance sheet at June 30, 2005.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for school bus purchases	<u>\$ 75,804</u>
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## **SUPPLEMENTAL DATA**

**BERLIN-MILAN LOCAL SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A),(C) Food Donation	10.550	N/A	\$ -	\$ 62,452	\$ -	\$ 62,452
(A),(D) National School Lunch Program	10.555	046789-LL-P4-2004	29,158	-	29,158	-
(A),(D) National School Lunch Program	10.555	046789-LL-P4-2005	83,575	-	83,575	-
<b>Total U.S. Department of Agriculture and Nutrition Cluster</b>			<u>112,733</u>	<u>62,452</u>	<u>112,733</u>	<u>62,452</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
Title I - Grants to Local Educational Agencies	84.010	046789-C1-S1-2004	8,145		42,945	
Title I - Grants to Local Educational Agencies	84.010	046789-C1-S1-2005	203,760		168,849	
<b>Total Title I</b>			<u>211,905</u>		<u>211,794</u>	
<b>Special Education Cluster:</b>						
(B) Special Education - Grants to States	84.027	046789-6B-SF-2004	143,376		17,551	
(B) Special Education - Grants to States	84.027	046789-6B-SF-2005	354,003		301,525	
<b>Total Special Education - Grants to States</b>			<u>497,379</u>		<u>319,076</u>	
(B) Special Education - Preschool Grants	84.173	046789-PG-S1-2005	19,156		21,067	
<b>Total Special Education Cluster</b>			<u>516,535</u>		<u>340,143</u>	
Safe and Drug-Free Schools and Communities - State Grants	84.186	046789-DR-S1-2004	382		2,129	
Safe and Drug-Free Schools and Communities - State Grants	84.186	046789-DR-S1-2005	8,043		7,271	
<b>Total Safe and Drug-Free Schools and Communities - State Grants</b>			<u>8,425</u>		<u>9,400</u>	
State Grants for Innovative Programs	84.298	046789-C2-S1-2004	-		14	
State Grants for Innovative Programs	84.298	046789-C2-S1-2005	7,200		6,442	
<b>Total State Grants for Innovative Programs</b>			<u>7,200</u>		<u>6,456</u>	
Education Technology State Grants	84.318	046789-TJ-S1-2004	1,236		1,458	
Education Technology State Grants	84.318	046789-TJ-S1-2005	5,436		2,037	
<b>Total Education Technology State Grants</b>			<u>6,672</u>		<u>3,495</u>	
Grants for Repair and Renovation	84.352A	Project-046789-2	16,624		16,624	
Improving Teacher Quality - State Grants	84.367	046789-TR-S1-2005	46,579		40,188	
<b>Total U.S. Department of Education</b>			<u>813,940</u>		<u>628,100</u>	
<b>U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY:</b>						
Public Assistance Grants	97.036	FEMA-3198.EM-043-03191	1,089		1,089	
<b>Total U.S. Department of Homeland Security</b>			<u>1,089</u>		<u>1,089</u>	
<b>Total Federal Financial Assistance</b>			<u>\$ 927,762</u>	<u>\$ 62,452</u>	<u>\$ 741,922</u>	<u>\$ 62,452</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.  
(B) Included as part of "Special Education Grant Cluster" in determining major programs.  
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.  
(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.  
(E) This schedule was prepared on the cash basis of accounting.



**Julian & Grube, Inc.**  
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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 the Berlin-Milan Local School District as of and for the fiscal year ended June 30, 2005, which collectively comprise the Berlin-Milan Local School District's basic financial statements and have issued our report thereon dated November 23, 2005. As disclosed in Note 3 to the financial statements, the District implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Berlin-Milan Local School District in a separate letter dated November 23, 2005.



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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2005-BMLSD-001. We also noted a certain matter that we reported to management of Berlin-Milan Local School District in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the management, the Board of the Berlin-Milan Local School District, 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.  
November 23, 2005



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

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

**Report on Compliance With Requirements Applicable to Its  
Major Federal 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 the 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, 2005. As disclosed in Note 3 to the financial statements, the District implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. The 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 the Berlin-Milan Local School District's management. Our responsibility is to express an opinion on the 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 the Berlin-Milan Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Berlin-Milan Local School District's compliance with those requirements.

Board of Education  
Berlin-Milan Local School District

In our opinion, the 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, 2005.

Internal Control Over Compliance

The management of the 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 the Berlin-Milan Local School District's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, caused by error or fraud that would be material in relation to its major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of the Berlin-Milan Local School District, 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.  
November 23, 2005

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I - Grants to Local Educational Agencies; CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

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

Finding Number	2005-BMLSD-001
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Ohio Revised Code Section 5705.412 requires that the Treasurer, Superintendent and President of the Board of Education certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to a number of days instruction was held or is scheduled for the current fiscal year.

It was noted during the audit that the previous District Treasurer, Mr. Don Breon, did not execute a 412 certificate for a negotiated agreement extension and wage increase for the OAPSE Local 350 (Classified) and Secretaries Association employees for fiscal 2005.

Without an executed 412 certificate for these contract extensions and wage increases, the required responsible personnel are not ensuring that funds will exist to cover those payments.

We recommend that the District provide to its auditors properly executed certificates and appropriate supporting documentation for each of the contracts addressed above.

*Client Response:* The current District Treasurer, Superintendent and President provided its auditors with properly signed 412 certificates and supporting documentation prior to the release of this report.

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

None

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

**STATUS OF PRIOR AUDIT FINDING  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2004-BMLSD-001	Ohio Revised Code Section 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue as certified by the county budget commission.	Yes	N/A
2004-BMLSD-002	Ohio Revised Code Section 5705.41 (B) outlines the requirements that no subdivision or taxing unit is to expend money unless it has been appropriated.	Yes	N/A



**Auditor of State  
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**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 9, 2006**