

ASHLAND CITY SCHOOL DISTRICT
ASHLAND COUNTY
SINGLE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

Board of Education
Ashland City School District
416 Arthur Street
P.O. Box 160
Ashland, Ohio 44805

We have reviewed the *Independent Auditor's Report* of the Ashland City School District, Ashland County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2008

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**ASHLAND CITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Ashland City School District
Ashland, OH 44805-0160

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ashland City School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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 District, as of June 30, 2007 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008 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 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 (continued)

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 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's. 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.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

January 31, 2008

Ashland City School District

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

This discussion and analysis of Ashland City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- Net assets of governmental activities increased \$5,567,435, representing a 40.6 percent increase from fiscal year 2006.
- General revenues accounted for \$33,681,427 or 87.3 percent of all revenues. Program revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$4,912,485 or 12.7 percent of total revenues of \$38,593,912.
- The School District had \$33,026,477 in expenses related to governmental activities; only \$4,912,485 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$33,681,427 were adequate to provide for these programs.
- The general fund's fund balance increased \$5,209,307 from fiscal year 2006.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, 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 School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Ashland City School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and answers the question, "How did we do financially during 2007?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's current 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 School District's activities are considered to be all governmental activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial statements provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

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

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

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

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

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
Assets		
<i>Current and other assets</i>	\$ 28,507,835	\$ 27,319,760
<i>Capital assets, net of depreciation</i>	<u>8,025,296</u>	<u>7,941,127</u>
<i>Total assets</i>	<u>36,533,131</u>	<u>35,260,887</u>
Liabilities		
<i>Current and other liabilities</i>	13,124,415	16,971,329
<i>Long-term liabilities</i>		
<i>Due within one year</i>	877,770	850,573
<i>Due in more than one year</i>	<u>3,244,877</u>	<u>3,720,351</u>
<i>Total liabilities</i>	<u>17,247,062</u>	<u>21,542,253</u>
Net Assets		
<i>Invested in capital assets, net of related debt</i>	6,484,296	5,965,127
<i>Restricted</i>	1,304,725	1,480,388
<i>Unrestricted</i>	<u>11,497,048</u>	<u>6,273,119</u>
<i>Total net assets</i>	<u>\$ 19,286,069</u>	<u>\$ 13,718,634</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School District's assets exceeded liabilities by \$19,286,069.

Invested in capital assets, net of related debt, reported on the government-wide statements represent the largest portion of the School District's net assets, 33.6 percent for fiscal year 2007. Capital assets include land, land improvements, building improvements, furniture, fixtures, and equipment and vehicles, and are used to provide services to students and are not available for future spending. Although the School 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 School District's net assets, \$1,304,725 or 6.8 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$532,493 or 2.8 percent is restricted for debt service payment; \$313,399 or 1.6 percent is restricted for capital projects; \$260,190 or 1.4 percent is restricted for nonexpendable scholarship trusts held by the school district, reported as a permanent fund and \$198,193 or 1.0 percent is restricted for other purposes. The remaining balance of government-wide unrestricted net assets of \$11,497,048 may be used to meet the School District's ongoing obligations to students and staff.

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

Table 2 shows change in net assets for fiscal year 2007 compared to 2006.

Table 2
Changes in Net Assets

	<i>Governmental Activities</i>	
	<i>2007</i>	<i>2006</i>
Revenues		
<i>Program revenues:</i>		
<i>Charges for services</i>	\$ 1,996,924	\$ 1,681,923
<i>Operating grants, contributions and interest</i>	2,898,188	3,070,406
<i>Capital grants, contributions and interest</i>	17,373	10,731
<i>General revenues:</i>		
<i>Property taxes</i>	20,153,321	16,823,686
<i>Grants and entitlements</i>	12,621,076	11,618,500
<i>Investment earnings</i>	560,945	301,315
<i>Miscellaneous</i>	346,085	443,282
<i>Total revenues</i>	<u>38,593,912</u>	<u>33,949,843</u>
Program Expenses		
<i>Instruction:</i>		
<i>Regular</i>	13,444,973	13,156,279
<i>Special</i>	3,884,271	3,480,426
<i>Vocational</i>	885,159	846,519
<i>Other</i>	941,651	1,101,972
<i>Support services:</i>		
<i>Pupils</i>	1,407,233	1,333,910
<i>Instructional staff</i>	1,695,734	1,416,821
<i>Board of education</i>	219,867	126,073
<i>Administration</i>	2,437,617	2,401,477
<i>Fiscal</i>	848,853	858,640
<i>Business</i>	391,932	405,685
<i>Operation and maintenance of plant</i>	2,921,584	2,657,771
<i>Pupil transportation</i>	1,092,210	1,009,890
<i>Central</i>	315,990	243,394
<i>Operation of non-instructional services:</i>		
<i>Food service operations</i>	1,295,262	1,319,593
<i>Community services</i>	190,650	190,698
<i>Extracurricular activities</i>	950,534	861,112
<i>Interest and fiscal charges</i>	102,957	131,798
<i>Total expenses</i>	<u>33,026,477</u>	<u>31,542,058</u>
<i>Change in net assets</i>	<u>\$ 5,567,435</u>	<u>\$ 2,407,785</u>

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

Governmental Activities

Several revenue sources fund the School District's governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated approximately \$20.2 million in 2007. General revenues from grants and entitlements, such as the school foundation program, generated over \$12.6 million. With the combination of taxes and intergovernmental funding comprising approximately 84.9 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

A review of Table 2 reflects the total cost of instructional services was \$19,156,054 or 58.0 percent of governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil. These expenses increased \$570,858, or 3.1 percent as compared to the prior year. The primary cause to this increase was due to an increase in student enrollment.

Pupil services and instructional staff include the activities involved in assisting staff and the content and process of teaching to pupils. These expenses represent \$3,102,967, or 9.4 percent of the total governmental program expenses. Expenses to provide these programs increased \$352,236, or 12.8 percent, as compared to fiscal year 2006. There was no specific cause to this increase.

Board of education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. The total cost to provide these programs was \$3,898,269, or 11.8 percent of governmental program expenses. Costs of these programs increased \$106,394, or 2.8 percent, as compared to the prior year. The most significant increase was to the board of education which increased \$93,794, or 74.4 percent. The most significant cause to this increase was a result of an increased salaries, wages and benefits.

Operation and maintenance of plant expenses refer to the care and upkeep of the buildings, grounds, equipment and the safety of the School District's operations. The total cost for the operation and maintenance services was \$2,921,584 or 8.9 percent of the governmental program expenses. These expenses increased \$263,813, or 9.9 percent as compared to fiscal year 2006.

Ashland City School District
Management's Discussion and Analysis
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Unaudited

The statement of activities shows the cost of program services and the charges for services and grants, contributions, and interest offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2007 and 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost</u> <u>of Services</u> 2007	<u>Total Cost</u> <u>of Services</u> 2006	<u>Net Cost</u> <u>of Services</u> 2007	<u>Net Cost</u> <u>of Services</u> 2006
Program Expenses				
<i>Instruction:</i>				
Regular	\$ 13,444,973	\$ 13,156,279	\$ (12,594,293)	\$ (12,224,182)
Special	3,884,271	3,480,426	(2,987,225)	(2,680,078)
Vocational	885,159	846,519	(782,727)	(846,519)
Other	941,651	1,101,972	(941,651)	(1,101,972)
<i>Support services:</i>				
Pupils	1,407,233	1,333,910	(1,312,626)	(1,269,079)
Instructional staff	1,695,734	1,416,821	(1,216,544)	(900,354)
Board of education	219,867	126,073	(219,867)	(126,073)
Administration	2,437,617	2,401,477	(2,045,979)	(2,108,865)
Fiscal	848,853	858,640	(848,853)	(858,640)
Business	391,932	405,685	(347,009)	(337,331)
Operation and maintenance of plant	2,921,584	2,657,771	(2,919,624)	(2,653,306)
Pupil transportation	1,092,210	1,009,890	(928,558)	(914,820)
Central	315,990	243,394	(265,363)	(193,102)
<i>Operation of non-instructional services:</i>				
Food service operations	1,295,262	1,319,593	(28,467)	66,388
Community services	190,650	190,698	4,794	20,048
Extracurricular activities	950,534	861,112	(577,043)	(519,315)
Interest and fiscal charges	102,957	131,798	(102,957)	(131,798)
<i>Total expenses</i>	<u>\$ 33,026,477</u>	<u>\$ 31,542,058</u>	<u>\$ (28,113,992)</u>	<u>\$ (26,778,998)</u>

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$38,209,499 and total expenditures were \$33,167,853. The School District continues to be financially stable. The net increase in fund balance for the year was significant in the general fund, amounting to \$5,209,307. The primary cause of this increase was from an increase in property tax collections and an increase in investment earnings. Net changes across all nonmajor governmental funds amounted to a decrease of \$167,661 or 9.2 percent.

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

General Fund Budgeting Highlights

The School 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 fiscal year 2007, the School District amended its general fund budget, however not significantly. Budget revisions become necessary as expenditure priorities change according to student, building and operational needs. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$30,508,955, which was higher than the original budget estimate of \$29,359,370. Most of this \$1,149,585 difference was due to conservative estimates for grant awards, the amounts of which are unknown during the original budgeting process. Those estimates must be increased during the year as the awards are finalized.

The original expenditures estimate of \$28,303,758 was revised slightly over the fiscal year. Actual expenditures, however, were \$28,727,832, \$424,074 greater than originally anticipated. Insignificant increases from the original to final budget were posted to nearly all line items of the budget. Even though the School District became aware of unexpected revenues, there was no intention of spending these additional revenues in any specific area.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$7,955,180 invested in capital assets. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<i>Governmental Activities</i>	
	<u>2007</u>	<u>2006</u>
<i>Land</i>	\$ 757,979	\$ 757,979
<i>Land improvements</i>	134,543	137,711
<i>Buildings</i>	4,577,262	4,649,467
<i>Furniture, fixtures and equipment</i>	1,611,804	1,604,826
<i>Vehicles</i>	943,708	791,144
<i>Total capital assets</i>	<u>\$ 8,025,296</u>	<u>\$ 7,941,127</u>

The School District purchased four school buses that totaled \$255,455 during the fiscal year. Capital assets, net of depreciation, increased by \$84,169, which was mainly due to the current year's school bus purchases. See Note 8 to the basic financial statements for detail on the School District's capital assets.

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

Debt

At June 30, 2007 the School District had \$1,731,000 in bonds and notes outstanding with \$551,000 due within one year. This balance reflected a reduction of \$530,000, or 18 percent, from the previous year's balance of \$2,261,000. Table 5 summarizes the bonds and notes outstanding:

*Table 5
 Outstanding General Obligation Debt, at Fiscal Year End*

	<i>Governmental Activities <u>2007</u></i>	<i>Governmental Activities <u>2006</u></i>
<i>Library Improvement Bonds</i>	<i>\$ 190,000</i>	<i>\$ 285,000</i>
<i>Land Purchase Loan</i>	<i>131,000</i>	<i>141,000</i>
<i>Certificates of Participation</i>	<i><u>1,410,000</u></i>	<i><u>1,835,000</u></i>
<i>Total outstanding debt</i>	<i><u>\$ 1,731,000</u></i>	<i><u>\$ 2,261,000</u></i>

During fiscal year 1986, the School District issued \$2,177,000 in bonds, the proceeds of which were used to renovate the Ashland Public Library. During fiscal year 1997, the School District issued Certificates of Participation in the amount of \$4,605,000 and simultaneously entered into a trust and lease agreement to make payments on the Certificates. The proceeds of this issue were used for the construction of additions to two existing elementary schools. In fiscal year 2002, a loan in the amount of \$178,000 was issued to purchase land that was intended to be used as the site of a new school building.

The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund. See Note 12 to the basic financial statements for detail on the School District's debt.

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, community support remains quite strong.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In December 2003, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issue creating the inequities.

Ashland City School District

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

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions or need additional financial information, contact Dan Griscom, Treasurer, Ashland City School District, 416 Arthur Street, Ashland OH, 44805.

Ashland City School District

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 10,817,398
Cash and cash equivalents:	
With fiscal agents	463,718
Investments in segregated accounts	238,490
Receivables:	
Taxes	16,621,917
Accounts	156,459
Intergovernmental	9,927
Due from agency fund	1,400
Prepaid items	157,890
Inventory held for resale	38,613
Materials and supplies inventory	2,023
Capital assets:	
Land	757,979
Depreciable capital assets, net	7,267,317
Total assets	<u>36,533,131</u>
<u>Liabilities:</u>	
Accounts payable	82,619
Accrued wages	2,167,688
Intergovernmental payable	765,868
Deferred revenue	9,511,610
Accrued interest payable	7,283
Claims payable	589,347
Long-term liabilities:	
Due within one year	877,770
Due in more than one year	3,244,877
Total liabilities	<u>17,247,062</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	6,484,296
Restricted for:	
Capital projects	313,399
Debt service	532,943
Permanent fund purpose - scholarships	
Nonexpendable	260,190
Other purposes	198,193
Unrestricted	11,497,048
Total net assets	<u>\$ 19,286,069</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Change in Net Assets
			Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 13,444,973	\$ 651,407	\$ 199,273	\$ -	\$ (12,594,293)
Special	3,884,271	100,992	796,054	-	(2,987,225)
Vocational	885,159	-	102,432	-	(782,727)
Other	941,651	-	-	-	(941,651)
Support services:					
Pupils	1,407,233	-	94,607	-	(1,312,626)
Instructional staff	1,695,734	-	479,190	-	(1,216,544)
Board of education	219,867	-	-	-	(219,867)
Administration	2,437,617	187,701	203,937	-	(2,045,979)
Fiscal	848,853	-	-	-	(848,853)
Business	391,932	13,810	31,113	-	(347,009)
Operation and maintenance of plant	2,921,584	1,960	-	-	(2,919,624)
Pupil transportation	1,092,210	40,054	106,225	17,373	(928,558)
Central	315,990	2,960	47,667	-	(265,363)
Operation of non-instructional services:					
Food service operations	1,295,262	631,330	635,465	-	(28,467)
Community services	190,650	-	195,444	-	4,794
Extracurricular activities	950,534	366,710	6,781	-	(577,043)
Interest and fiscal charges	102,957	-	-	-	(102,957)
Total governmental activities	\$ 33,026,477	\$ 1,996,924	\$ 2,898,188	\$ 17,373	\$ (28,113,992)

General Revenues:

Property taxes levied for:

General purposes	19,508,434
Capital projects	644,887
Grants and entitlements not restricted to specific programs	12,621,076
Investment earnings	560,945
Miscellaneous	346,085
Total general revenues	33,681,427
 Change in net assets	 5,567,435
 Net assets beginning of year	 13,718,634
Net assets end of year	\$ 19,286,069

See accompanying notes to the basic financial statements.

Ashland City School District

Balance Sheet

Governmental Funds

June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 7,560,749	\$ 1,083,258	\$ 8,644,007
Cash and cash equivalents:			
With fiscal agents	-	463,718	463,718
Investments in segregated accounts	-	238,490	238,490
Receivables:			
Taxes	16,168,238	453,679	16,621,917
Accounts	60,475	95,984	156,459
Intergovernmental	-	9,927	9,927
Interfund	138,750	-	138,750
Inventory held for resale	-	38,613	38,613
Materials and supplies inventory	-	2,023	2,023
Prepaid items	157,890	-	157,890
Total assets	<u>24,086,102</u>	<u>2,385,692</u>	<u>26,471,794</u>
<u>Liabilities:</u>			
Accounts payable	\$ 35,963	\$ 46,656	\$ 82,619
Accrued wages	1,976,164	191,524	2,167,688
Interfund payable	-	137,350	137,350
Intergovernmental payable	692,671	71,626	764,297
Deferred revenue	10,577,471	289,757	10,867,228
Total liabilities	<u>13,282,269</u>	<u>736,913</u>	<u>14,019,182</u>
<u>Fund balances:</u>			
Reserved for:			
Encumbrances	126,366	130,919	257,285
Endowments	-	238,490	238,490
Unreserved, undesignated, reported in:			
General fund	10,677,467	-	10,677,467
Special revenue funds	-	264,631	264,631
Debt service fund	-	730,226	730,226
Capital projects fund	-	262,813	262,813
Permanent fund	-	21,700	21,700
Total fund balances	<u>10,803,833</u>	<u>1,648,779</u>	<u>12,452,612</u>
Total liabilities and fund balances	<u>\$ 24,086,102</u>	<u>\$ 2,385,692</u>	<u>\$ 26,471,794</u>

See accompanying notes to the basic financial statements.

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

Total governmental fund balances		\$ 12,452,612
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,025,296
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 1,313,522	
Intergovernmental	9,927	
Charges for services	28,489	
Tuition and fees	3,653	
Extracurricular	27	
Total	<u>1,355,618</u>	1,355,618
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		1,581,803
In the statement of activities, interest is accrued on outstanding bonds and certificates of participation, whereas in governmental funds, an interest expenditure is reported when due.		(7,283)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (1,731,000)	
Compensated absences	(2,390,977)	
Total	<u>(4,121,977)</u>	<u>(4,121,977)</u>
Net assets of governmental activities		<u>\$ 19,286,069</u>

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 19,131,735	\$ 633,237	\$ 19,764,972
Intergovernmental	12,672,869	2,769,680	15,442,549
Interest	559,484	12,637	572,121
Tuition and fees	680,783	136,586	817,369
Extracurricular activities	67,630	403,303	470,933
Gifts and donations	30,267	66,704	96,971
Charges for services	30,052	654,339	684,391
Rent	1,960	-	1,960
Increase in fair value of investments	-	15,230	15,230
Miscellaneous	337,343	5,660	343,003
Total revenues	<u>33,512,123</u>	<u>4,697,376</u>	<u>38,209,499</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	12,730,850	397,250	13,128,100
Special	2,846,520	868,790	3,715,310
Vocational	867,549	-	867,549
Other	1,021,115	-	1,021,115
Support services:			
Pupils	1,299,608	86,449	1,386,057
Instructional staff	1,072,650	604,811	1,677,461
Board of education	219,867		219,867
Administration	2,070,175	311,294	2,381,469
Fiscal	835,403	11,775	847,178
Business	361,351	30,330	391,681
Operation and maintenance of plant	2,727,229	165,420	2,892,649
Pupil transportation	877,456	108,085	985,541
Central	241,126	55,970	297,096
Operation of non-instructional services:			
Food service operations	-	1,248,899	1,248,899
Community service	-	188,047	188,047
Extracurricular	622,110	302,628	924,738
Capital outlay	-	359,711	359,711
Debt service:			
Principal retirement	425,000	105,000	530,000
Interest and fiscal charges	81,185	24,200	105,385
Total expenditures	<u>28,299,194</u>	<u>4,868,659</u>	<u>33,167,853</u>
Excess of revenues over (under) expenditures	<u>5,212,929</u>	<u>(171,283)</u>	<u>5,041,646</u>
<u>Other financing sources (uses):</u>			
Transfers in	108	3,730	3,838
Transfers out	(3,730)	(108)	(3,838)
Total other financing sources (uses)	<u>(3,622)</u>	<u>3,622</u>	<u>-</u>
Net change in fund balances	5,209,307	(167,661)	5,041,646
Fund balances beginning of year	5,594,526	1,816,440	7,410,966
Fund balances end of year	<u>\$ 10,803,833</u>	<u>\$ 1,648,779</u>	<u>\$ 12,452,612</u>

See accompanying notes to the basic financial statements.

Ashland City School District

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007**

Net change in fund balances - total governmental funds \$ 5,041,646

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities,
the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Net capital asset additions	\$	359,711	
Depreciation expense		<u>(267,646)</u>	
Excess of net capital outlay over depreciation expense			92,065

The proceeds from the sale of capital assets are reported as a source of financing in the governmental
funds. However, the cost of the capital assets sold is removed from the capital assets
account in the statement of net assets and offset against the sales proceeds resulting in a
"loss on the disposal of capital assets" in the statement of activities. Thus, more revenue
is reported in the governmental funds and more expenses in the statement of activities. (7,896)

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

Property taxes	\$	388,345	
Intergovernmental		(679)	
Charges for services		28,489	
Tuition and fees		(13,204)	
Extracurricular		27	
Miscellaneous		<u>(18,565)</u>	
Net change in deferred revenues during the year			384,413

Repayments of debt and capital lease principal are expenditures in the governmental funds, but the
repayments reduce long-term liabilities in the statement of net assets. 530,000

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

Increase in compensated absences	\$	(81,941)	
Decrease in accrued interest		<u>2,428</u>	
Total additional expenses			(79,513)

The internal service fund used by management to charge the costs of medical, prescription
drug, dental and vision claims to individual funds are not reported in the statement of
activities. The net revenue (expense) of the internal service fund is reported in the
government-wide statements. (393,280)

Change in net assets of governmental activities \$ 5,567,435

See accompanying notes to the basic financial statements.

Ashland City School District

**Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 15,677,867	\$ 16,288,344	\$ 16,323,693	\$ 35,349
Intergovernmental	12,171,482	12,645,425	12,672,869	27,444
Interest	418,305	435,537	567,640	132,103
Tuition and fees	630,887	656,876	657,280	404
Extracurricular activities	1,882	1,960	1,960	-
Gifts and donations	64,954	67,630	67,630	-
Charges for services	29,070	30,267	30,267	-
Rent	28,863	30,052	30,052	-
Miscellaneous	336,060	352,864	352,864	-
Total revenues	<u>29,359,370</u>	<u>30,508,955</u>	<u>30,704,255</u>	<u>195,300</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	13,266,307	12,971,203	12,809,634	161,569
Special	2,900,306	2,849,012	2,849,012	-
Vocational	828,922	859,764	859,765	(1)
Other	1,039,822	1,101,451	1,101,451	-
Support services:				
Pupils	1,314,750	1,303,438	1,303,438	-
Instructional staff	799,653	1,075,109	1,074,590	519
Board of education	155,373	250,929	250,929	-
Administration	2,212,949	2,099,352	2,097,630	1,722
Fiscal	855,297	832,363	832,360	3
Business	354,908	554,042	552,541	1,501
Operation and maintenance of plant	2,470,675	2,772,954	2,772,800	154
Pupil transportation	904,532	874,159	872,776	1,383
Central	130,754	233,851	230,891	2,960
Extracurricular activities	577,068	633,049	632,824	225
Capital outlay	492,442	487,191	487,191	-
Total expenditures	<u>28,303,758</u>	<u>28,897,867</u>	<u>28,727,832</u>	<u>170,035</u>
Excess of revenues over (under) expenditures	<u>1,055,612</u>	<u>1,611,088</u>	<u>1,976,423</u>	<u>365,335</u>
<u>Other financing sources (uses):</u>				
Proceeds from the sale of capital assets	-	719	719	-
Refund of prior year expenditures	-	26,892	26,892	-
Advances in	-	34,456	34,456	-
Advances out	(34,456)	(138,750)	(138,750)	-
Transfers in	-	108	108	-
Transfers out	(34)	(3,730)	(3,730)	-
Total other financing sources (uses)	<u>(34,490)</u>	<u>(80,305)</u>	<u>(80,305)</u>	<u>-</u>
Net change in fund balance	1,021,122	1,530,783	1,896,118	365,335
Fund balance at beginning of year	5,308,260	5,308,260	5,308,260	-
Prior year encumbrances appropriated	218,034	218,034	218,034	-
Fund balance at end of year	<u>\$ 6,547,416</u>	<u>\$ 7,057,077</u>	<u>\$ 7,422,412</u>	<u>\$ 365,335</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	<u>Self Insurance</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 2,173,391</u>
<u>Liabilities:</u>	
Current liabilities:	
Intergovernmental payable	1,571
Claims payable	<u>589,347</u>
Total current liabilities	<u>590,918</u>
Noncurrent liabilities:	
Due in more than one year	<u>670</u>
Total liabilities	<u>591,588</u>
<u>Net assets:</u>	
Unrestricted	<u>1,581,803</u>
Total liabilities and net assets	<u>\$ 2,173,391</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Self Insurance
<u>Operating revenues:</u>	
Charges for services	\$ 3,562,347
Other revenues	103,530
Total operating revenues	<u>3,665,877</u>
 <u>Operating expenses:</u>	
Salaries	120,501
Fringe benefits	27,585
Purchased services	403,505
Claims	3,507,566
Total operating expenses	<u>4,059,157</u>
 Change in net assets	 (393,280)
 Net assets beginning of year	 <u>1,975,083</u>
Net assets end of year	<u>\$ 1,581,803</u>

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from interfund services provided	\$ 3,562,347
Cash received from other operating sources	103,530
Cash payments to suppliers for goods and services	(18,508)
Cash payments to employees for services	(120,501)
Cash payments for employee benefits	<u>(3,731,070)</u>
Net cash provided by operating activities	<u>(204,202)</u>
Net increase in cash and cash equivalents	(204,202)
Cash and cash equivalents at beginning of year	<u>2,377,593</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,173,391</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ (393,280)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in liabilities:	
Accrued wages	(539)
Compensated absences payable	(218)
Intergovernmental payable	138
Claims payable	<u>189,697</u>
Net cash provided by operating activities	<u><u>\$ (204,202)</u></u>

Ashland City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 13,618	\$ 48,860
	<u> </u>	<u> </u>
 <u>Liabilities:</u>		
Accounts payable	-	1,060
Interfund payable	-	1,400
Due to students	-	46,400
	<u> </u>	<u> </u>
Total liabilities	-	\$ 48,860
	<u> </u>	<u> </u>
 <u>Net assets:</u>		
Held in trust for scholarships	13,618	
	<u> </u>	
Total net assets	\$ 13,618	
	<u> </u>	

See accompanying notes to the basic financial statements.

Ashland City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
<u>Additions:</u>	
Gifts and contributions	\$ 2,600
Investment earnings	336
Interest	<u>5,137</u>
Total additions	8,073
 <u>Deductions:</u>	
Payments in accordance with trust agreements	<u>7,652</u>
Change in net assets	421
Net assets beginning of year	<u>13,197</u>
Net assets end of year	<u><u>\$ 13,618</u></u>

See accompanying notes to the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles

**A. Basis of Presentation
- Fund Accounting**

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund and other internal activity of governmental funds are eliminated to avoid "doubling-up" revenues and expenses.

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

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into three categories: governmental, proprietary and fiduciary. The School District's only agency fund accounts for student managed activities.

Governmental Fund Types

Governmental funds focus 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 School District has one major governmental fund:

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

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund: The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for revenue received from other funds and the settlement expenses for medical, surgical, prescription drug, dental, and vision claims of School District employees.

Fiduciary Fund Types

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

**C. Measurement Focus
and Basis of
Accounting**

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

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

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

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. The private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue - 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 School District, available means expected to be received within sixty days of year-end.

Notes to the Basic Financial Statements

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available 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 (should not include delinquent) for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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 on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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

D. Budgets and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board of education during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to interest in the State Treasurer's Investment Pool (STAROhio), Federal Home Loan Mortgage Corporation, Federal Home Loan Bank securities and stock certificates. These investments are stated at cost, which approximates market value (fair value).

In a previous fiscal year, the School District received donated stocks, which are reported in a permanent endowment fund as "Investments in segregated accounts". The stocks are carried at fair value and are not to be sold. The dividends are used for expenditures of this fund.

F. Prepaid Items

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

Notes to the Basic Financial Statements

G. Interfund balances On the 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 of the statement of net assets, except for the amount due from the agency fund.

H. Inventory On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventories on the fund financial statements are stated at cost for governmental funds. Cost is determined on a first-in, first-out basis. Inventories of the general fund were not significant at the end of the year. Inventories of the food service special revenue fund consist of donated and purchased food. Inventories reported on the fund financial statements are expensed when purchased.

I. 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 imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. See Note 16 for additional information regarding statutory reserves and restricted assets.

J. Capital Assets General capital assets are those assets resulting 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. The School District's policy is not to capitalize interest costs incurred as part of construction.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
<i>Land improvements</i>	<i>8 years</i>
<i>Buildings</i>	<i>40 years</i>
<i>Furniture, fixtures and equipment</i>	<i>5 - 8 years</i>
<i>Vehicles</i>	<i>10 years</i>

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

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

N. Operating Revenues and Expenses

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

Notes to the Basic Financial Statements

- O. Interfund Transactions** Interfund transactions are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of net assets.
- P. Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.
- Q. Fund Balance Reserves** The School District records reservations for portions of fund balances, which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditures. Unreserved fund balance indicates the portion of fund balances that are available for appropriation in future periods. Fund balance reserves are established for encumbrances and contributions.

NOTE 2 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Ashland City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's six instructional/support facilities staffed by 175 non-certificated employees and 408 certificated teaching and support personnel, including 18 administrators, which provides services to 3,634 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District is associated with the Tri-County Computer Service Association, which is defined as a jointly governed organization. A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding this organization is presented in Note 14.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presentation for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	<i>General</i>
<i>GAAP Basis</i>	\$ 5,209,307
<i>Revenue Accruals</i>	(2,745,801)
<i>Expenditure Accruals</i>	(422,349)
<i>Encumbrances (Budget Basis) outstanding at year end</i>	<u>(145,039)</u>
<i>Budget Basis</i>	<u>\$ 1,896,118</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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 moneys. Interim moneys are those moneys 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 pass book accounts.

Interim moneys may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations 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 other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; and

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School 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. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, the carrying amount of the School District's deposits was \$5,597,699. The School District's bank balance of \$5,953,990 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and not in the School District's name	\$ 5,645,490
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B. Investments

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

Notes to the Basic Financial Statements

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
STAROhio	\$ 1,093,752	n/a	AAAm
Discounted notes:			
Federal Home Loan Mortgage Corporation	484,800	2/4/2008	AAA ⁽¹⁾
Notes:			
Federal Home Loan Mortgage Corporation	199,368	9/14/2009	AAA ⁽¹⁾
Federal Home Loan Bank	498,280	8/27/2007	AAA ⁽¹⁾
Federal Home Loan Bank	998,130	1/22/2010	AAA ⁽¹⁾
Federal Home Loan Bank	499,065	6/14/2010	AAA ⁽¹⁾
Federal National Mortgage Association	973,750	6/30/2008	AAA ⁽¹⁾
Federal National Mortgage Association	<u>998,750</u>	6/18/2009	AAA ⁽¹⁾
	<u>\$ 5,745,895</u>		

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$559,484, which includes \$192,636 assigned from other School District funds.

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

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB) and Federal National Mortgage Association (FNMA) are held by the counterparty's trust department or agent and not in the School District's name. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAROhio as shown in the table above. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5 percent of the School District's investments are in Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB) and Federal National Mortgage Association (FNMA). These investments are 15%, 43% and 42% respectively, of the School District total investments. The School District's policy places no limit on the amount that may be invested in any one issuer

C. Investments - permanent endowment fund

As of June 30, the School District's permanent endowment fund had the following investments:

<u>Investment type</u>	<u>Fair Value</u>
<i>Stocks:</i>	
<i>AT&T</i>	\$ 154,918
<i>Agere Systems</i>	406
<i>Avaya</i>	16,128
<i>Exelon</i>	14,520
<i>Idearc</i>	28,405
<i>Vodafone</i>	24,113
	<u>\$ 238,490</u>

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5 percent of the School District's investments are in AT&T, Avaya, Exelon, Idearc, and Vodafone. These investments are 65%, 7%, 6%, 12%, and 10% respectively, of the School District total investments. These investments were donated in a prior year and the principal amount is non-expendable. The School District's policy places no limit on the amount that may be invested in any one issuer

NOTE 5 - PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located within the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. In prior years, tangible personal property was assessed at 25% of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5%. This will be reduced to 6.25% for 2008 and zero for 2009.

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 alternative payment dates to be established.

Tangible personal property taxes paid 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.

The School District receives property taxes from Ashland and Richland Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by year-end are available to finance the current fiscal year operations. The amount available to be advanced can vary based on the date the tax bills are sent. The Board has passed a resolution to accept advances of property taxes and make them available for appropriation.

Ashland City School District

Accrued property tax receivables represent delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at year-end is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at year-end was \$5,622,881 in the general fund and \$173,904 in the permanent improvement fund and is recognized as revenue on the fund financial statements.

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<i>Property Category</i>	<i>2005 Assessed Value</i>	<i>2006 Assessed Value</i>
<i>Real Property</i>		
<i>Residential and agricultural</i>	\$ 321,151,190	\$ 326,305,170
<i>Commercial and industrial</i>	91,184,030	96,005,670
<i>Tangible Personal Property</i>		
<i>General</i>	60,757,417	50,994,194
<i>Public utilities</i>	16,316,110	16,531,860
<i>Total</i>	<u>\$ 489,408,747</u>	<u>\$ 489,836,894</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, interfund, and intergovernmental. 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 principal items of intergovernmental receivables follows:

<i>Funds</i>	<i>Amount</i>
<i>Special revenue fund:</i>	
<i>Reducing class size</i>	\$ 9,927

Notes to the Basic Financial Statements

NOTE 7 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 757,979	\$ -	\$ -	\$ 757,979
<i>Capital assets, being depreciated:</i>				
Land improvements	451,883	-	-	451,883
Buildings and improvements	15,339,372	28,386	-	15,367,758
Furniture, fixtures and equipment	4,192,962	75,870	-	4,268,832
Vehicles	1,794,775	255,455	(78,960)	1,971,270
Total capital assets, being depreciated	<u>21,778,992</u>	<u>359,711</u>	<u>(78,960)</u>	<u>22,059,743</u>
<i>Less: Accumulated depreciation</i>				
Land improvements	(314,172)	(3,168)	-	(317,340)
Buildings and improvements	(10,689,905)	(100,591)	-	(10,790,496)
Furniture, fixtures and equipment	(2,588,136)	(68,892)	-	(2,657,028)
Vehicles	<u>(1,003,631)</u>	<u>(94,995)</u>	<u>71,064</u>	<u>(1,027,562)</u>
Total accumulated depreciation	<u>(14,595,844)</u>	<u>(267,646)</u>	<u>71,064</u>	<u>(14,792,426)</u>
Total capital assets being depreciated, net	<u>7,183,148</u>	<u>92,065</u>	<u>(7,896)</u>	<u>7,267,317</u>
Governmental activities capital assets, net	<u>\$ 7,941,127</u>	<u>\$ 92,065</u>	<u>\$ (7,896)</u>	<u>\$ 8,025,296</u>

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$ 92,464
Special	15,319
Vocational	1,407
<i>Support services:</i>	
Instructional staff	2,061
Administration	6,713
Fiscal	1,096
Operation and maintenance of plant	21,473
Pupil transportation	88,786
Food service operations	15,747
Community service	243
Extracurricular activities	<u>22,337</u>
Total depreciation expense	<u>\$ 267,646</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, and TRANSFERS

A. Interfund balances at June 30, 2007 consisted of the following:

<i>Due to general fund from:</i>		
<i>Nonmajor governmental funds</i>	\$	138,750
<i>Agency fund</i>		1,400

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2007, all interfund loans outstanding are anticipated to be repaid in fiscal year 2008.

B. Transfers at June 30, 2007 consisted of the following:

<i>Transfers from the general fund:</i>		
<i>To nonmajor governmental funds</i>	\$	3,730

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year the School District closed two funds which resulted in the following transfers.

<i>Transfers to the general fund:</i>		
<i>From nonmajor governmental funds</i>	\$	108

NOTE 9 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District uses an internal service fund to record and report its self-funded health care insurance program. The claims liability of \$589,347, reported in the fund at year end, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The School District purchases stop-loss coverage of \$70,000 per employee.

Notes to the Basic Financial Statements

Changes in the fund's claims liability during 2006 and 2007 were:

<i>Fiscal Year</i>	<i>Balance at beginning of year</i>	<i>Current year claims</i>	<i>Claim payments</i>	<i>Balance at end of year</i>
2006	\$ 476,734	2,784,068	(2,861,152)	\$ 399,650
2007	\$ 399,650	3,507,566	(3,317,869)	\$ 589,347

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under forms and publications.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006 (latest information available), 10.58% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were 391,762, \$369,526 and \$328,252, respectively; 40.4% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$233,592, representing the unpaid contribution for fiscal year 2007, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006 (latest information available) plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, 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 employer contributions.

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006 and 2005 were 1,859,275, \$1,955,363 and \$1,808,876, respectively; 84.1% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$296,029, representing the unpaid contribution for fiscal year 2007, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2007 were \$17,014 made by the School District and \$52,149 made by the plan members.

NOTE 11 - POST-EMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$143,021 during the 2007 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.5 billion at June 30, 2006 (latest information available). For the year ended June 30, 2006 (latest information available), the net health care costs paid by the STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, 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. For this fiscal year, employer contributions to fund health care benefits were 3.42% of covered payroll.

Ashland City School District

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, prorated for partial service credit. For fiscal year 2006 (latest information available), the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$176,539, which includes a surcharge of \$49,901 during the 2007 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2006 (latest information available) were \$158,751,207. The target level for health fund is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claim costs. The number of participants eligible to receive benefits is 59,492.

NOTE 12 – BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

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

<u>Governmental activities</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due in</u> <u>one year</u>
<u>General Obligations</u>					
Library Improvement Bonds	\$ 285,000	\$ -	\$ (95,000)	\$ 190,000	\$ 95,000
Certificates of Participation	1,835,000	-	(425,000)	1,410,000	445,000
Land Purchase Loan	<u>141,000</u>	<u>-</u>	<u>(10,000)</u>	<u>131,000</u>	<u>11,000</u>
Total General Obligations	<u>2,261,000</u>	<u>-</u>	<u>(530,000)</u>	<u>1,731,000</u>	<u>551,000</u>
<u>Other Obligations</u>					
Compensated absences	<u>2,309,924</u>	<u>281,809</u>	<u>(200,086)</u>	<u>2,391,647</u>	<u>326,770</u>
Total other liabilities	<u>2,309,924</u>	<u>281,809</u>	<u>(200,086)</u>	<u>2,391,647</u>	<u>326,770</u>
Governmental activities long-term liabilities	<u>\$ 4,570,924</u>	<u>\$ 281,809</u>	<u>\$ (730,086)</u>	<u>\$ 4,122,647</u>	<u>\$ 877,770</u>

Notes to the Basic Financial Statements

The original principals, interest rates and maturities of the general obligations are as follows:

	<i>Original Principal</i>	<i>Interest Rate</i>	<i>Maturity Date</i>
<i>General Obligations</i>			
<i>Library Improvement Bonds</i>	\$ 2,177,000	8.75%	<i>December 1, 2008</i>
<i>Land Purchase Loan</i>	178,000	4.50% to 5.10%	<i>December 1, 2009</i>
<i>Certificates of Participation</i>	4,605,000	2.30% to 3.00%	<i>July 1, 2017</i>

Library Improvements Bonds: During the year ended June 30, 1985, the School District issued bonds for improving the Ashland Public Library. The repayment of the debt is from property tax revenue received in the bond retirement debt service fund.

Certificates of Participation: Certificates of Participation were issued during fiscal year 1997. Concurrently, the School District entered into a trust and lease agreement to make base rent payments for the face value of the Certificates. The agreements were for the School District to sublease additions to two existing elementary schools, which were constructed using the proceeds from the Certificates.

The renewal of the lease and disbursement of rent payments are subject to appropriations made by the School District's Board from the general fund.

Land Purchase Loan: During the year ended June 30, 2003, the School District entered into a Loan to purchase land adjacent to the high school for future expansion. The repayment is from the permanent improvement fund and subject to appropriations made by the School District's Board.

Other Obligations: Compensated absences are typically paid from the fund from which the employee is paid. In prior years this has primarily been the general fund. Capital lease obligations are typically paid from the general fund.

Principal and interest requirements to amortize all general obligation bonds, loan and certificates outstanding at June 30, 2007 are as follows:

<i>Fiscal Year</i>	<i>Bonds</i>		<i>Certificates</i>		<i>Loan</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2008	95,000	12,469	445,000	59,759	11,000	6,613
2009	95,000	8,313	470,000	36,995	11,000	6,111
2010	-	-	495,000	12,622	11,000	5,609
2011	-	-	-	-	12,000	5,064
2012	-	-	-	-	13,000	4,467
2013-2017	-	-	-	-	73,000	11,950
<i>Total</i>	<u>\$ 190,000</u>	<u>\$ 20,782</u>	<u>\$ 1,410,000</u>	<u>\$ 109,376</u>	<u>\$ 131,000</u>	<u>\$ 39,814</u>

NOTE 13 – NONCANCELLABLE OPERATING LEASES

The District leases copier machines under noncancellable operating leases. Total payments for these leases are \$36,098 for the year ended June 30, 2007, and is reported in the general fund. The future minimum lease payments as of June 30, 2007 are as follows:

<i>Fiscal</i>		<i>Amount</i>
<u>Year</u>		
2008	\$	36,098
2009		36,098
2010		<u>12,033</u>
<i>Total</i>	\$	<u>84,229</u>

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association (TCCSA) is the computer service organization or Data Acquisition Site (DAS) used by the School District. TCCSA is an association of public school districts in a geographic area determined by the Ohio Department of Education. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges, and assessments as charged.

TCCSA is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest in or an ongoing financial responsibility for the consortium. Payments to TCCSA are made from the general fund.

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

C. Public Utility Property Tax Refund

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of that refund is estimated to be approximately \$65,506 per year. A portion of the refund may be recovered from additional State entitlement payments

NOTE 16 - STATUTORY RESERVES

The School District is required by State statute to annually set-aside monies for the purchase of textbooks and other instructional materials, for school bus purchases, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may only be used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the other set-asides. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Ashland City School District

During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>
<i>Set-aside cash balance as of June 30, 2006</i>	\$ (636,266)	\$ -
<i>Current year set-aside requirement</i>	525,529	525,529
<i>Current year offset</i>	-	(527,794)
<i>Qualifying disbursements</i>	<u>(971,571)</u>	<u>(739,659)</u>
<i>Total</i>	<u>\$ (1,082,308)</u>	<u>\$ (741,924)</u>
<i>Balance carried forward to future years</i>	<u>\$ (1,082,308)</u>	

NOTE 17 - REQUIRED SUPPLEMENTARY INFORMATION (RSI) IS OMITTED

In a previous fiscal year, the School District was required to implement GASB Technical Bulletin No. 2004-2. In addition to the implementation of this guidance, the School District simultaneously implemented GASB Statement No. 45, as recommended by the GASB. This Statement requires employers to present as required supplementary information (RSI) schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with GASB Statement 43 is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity. SERS and STRS have not issued a financial report in accordance with the statement and have not conducted a valuation of their plans, as they were not required to implement the statement as of the date of this report. Therefore, RSI is unavailable to the School District and it does not follow these notes to the financial statements.

**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
Ashland City School District
Ashland, OH 44805-0160

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ashland City School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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* (continued)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated January 31, 2008.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

January 31, 2008

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

Board of Education
Ashland City School District
Ashland, OH 44805-0160

Compliance

We have audited the compliance of the Ashland City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 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 District's compliance with those requirements.

As described in item 2007-01 the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding period of availability that is applicable to its Special Education – Grants to States program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, as items 2007-02 and 2007-03.

Internal Control Over Compliance

The management of the 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 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-01 through 2007-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-01 to be a material weakness.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on it.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

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

Varney, Fink & Associates
VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

January 31, 2008

Ashland City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Food Donation	10.550	----	\$152,794	\$152,794
Child Nutrition Cluster:				
National School Lunch Program	10.555	043505-LLP4-2007	314,995	314,995
National School Lunch Program	10.555	043505-LLP4-2006	50,519	50,519
Total National School Lunch Program			365,514	365,514
Federal School Breakfast	10.553	043505-05PU-2007	66,088	66,088
Federal School Breakfast	10.553	043505-05PU-2006	9,630	9,630
Total Federal School Breakfast			75,718	75,718
Total Child Nutrition Cluster			441,232	441,232
Total U.S. Department of Agriculture			594,026	594,026
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program	93.778	----	449	0
Total U.S. Department of Health and Human Services - Medicaid Cluster			449	0
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
State Grants for Innovative Programs	84.298	043505-C2S1-2007	1,071	272
State Grants for Innovative Programs	84.298	043505-C2S1-2006	0	502
Total State Grants for Innovative Programs			1,071	774
Title I Grants to Local Educational Agencies	84.010	043505-C1SD-2007	28,883	23,014
Title I Grants to Local Educational Agencies	84.010	043505-C1S1-2007	484,168	477,328
Title I Grants to Local Educational Agencies	84.010	043505-C1S1-2006	0	1,057
Total Title I			513,051	501,399
Safe and Drug-Free Schools and Communities - State Grants	84.186	043505-DRS1-2007	13,379	13,468
Safe and Drug-Free Schools and Communities - State Grants	84.186	043505-DRS1-2006	0	980
Total Safe and Drug-Free Schools and Communities			13,379	14,448
Special Education Cluster:				
Special Education-Grants to States	84.027	043505-6BSD-2007	61,180	50,225
Special Education-Grants to States	84.027	043505-6BSF-2007	923,124	865,147
Special Education-Grants to States	84.027	043505-6BSF-2006	0	35,290
Total Special Education Cluster			984,304	950,662
Education Technology State Grants	84.318	043505-TJS1-2007	5,037	4,700
Education Technology State Grants	84.318	043505-TJS1-2006	0	55
Total Education Technology State Grants			5,037	4,755
Improving Teacher Quality State Grants	84.367	043505-TRS1-2007	123,787	165,067
Improving Teacher Quality State Grants	84.367	043505-TRS1-2006	4,058	16,521
Total Improving Teacher Quality State Grants			127,845	181,588
Hurricane Education Recovery	84.938	043505-HR01-2006	15,750	15,750
Funds for the Improvement of Education	84.215	U215K050115	38,527	37,070
Total U.S. Department of Education			1,698,964	1,706,446
Total Federal Assistance			2,293,439	2,300,472

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

ASHLAND CITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – COMMUNITY ALTERNATIVE FUNDING SOURCE (CAFS)

The District received settlement payments of \$449 for FY 2006.

ASHLAND CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control over major programs reported?	Yes
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Qualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	Yes

ASHLAND CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

(d)(1)(vii)	Major Program:	Special Education - Grants to States, CFDA #84.027 and Child Nutrition Cluster, CFDA #10.553 and #10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

Finding 2007-01 Noncompliance/Significant Deficiency

Federal Program: Special Education – Grants to States
 Identification Number: 043505-6BSF-2007
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

Criteria: A-102 common rule. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and pre-award costs authorized by the federal awarding agency. Obligations means the amount of orders placed, contracts and sub grants awarded, goods and services received, and similar transactions during the same or a future period.

Condition Found: Tuition costs for educational purposes for the 2005-2006 school year have been charged to the 2006-2007 program year. A contract for the purchase of a handicapped bus was approved in 2005-2006 school year and paid and charged to the 2006-2007 program year.

ASHLAND CITY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

Questioned Costs: A payment to Mansfield City Schools for \$24,080.29 and one payment to Oregon Board of Education for \$21,220.56. Each of the relating invoices was not received prior to closing the FY 2005/2006 grant. The purchase of the bus was approved April 2006. The invoice of \$69,440.00 was received and paid in November 2006. We found no additional costs being charged to the 2006-2007 period that were from another period.

Effect: Costs are not being charged to the correct grant period.

Recommendation: We recommend the District request the amount of the services provided and payments to be made and liquidating those obligations not later than 90 days after the end of the funding period.

Corrective Action: Contact Person: Dan Griscom, Treasurer

The District will try to follow the recommendation listed above. However, it is difficult to achieve, in the case of “excess costs,” due to the length of time elapsing between services performed and when districts may be bill each other for these costs. The District understands that according to the Ohio Department of Education, school districts have up to two (2) years to bill other districts for excess costs. In the cases mentioned in this finding, the Oregon Board of Education billed Ashland City Schools in December 2006 for excess costs incurred in the 2005-06 school year, and Mansfield City Schools billed us in March 2007 for excess costs incurred in the 2005-06 school year. Oregon and Mansfield were permitted to bill the District “after the fact” for these services, due to Ohio Dept. of Education guidelines, and the District was obligated to pay for them in the 2006-07 fiscal year. The District was not able to encumber or pay 2005-06 grant funds for this purpose within the time period suggested under the “recommendation” because we did not know of the obligation during that time period, and also, the District would not be permitted, under grant guidelines, to hold the purchase orders open for that long into the 2006-07 fiscal year. However, the District did have a sufficient carry-over balance of \$50,855 from 2005-06 (which was carried over to 2006-07) to pay both of these invoices.

ASHLAND CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

or should the household fail to cooperate with verification efforts, the school or School Fund Authority shall reduce or terminate benefits, as applicable.

Condition Found: The District did not determine benefits properly on the free and reduced price school meal application for two out of the sixty applications tested. These two applications were approved by the District for reduced price benefits when they were eligible for free benefits. During the District's annual verification process the District improperly determined the status for two students. For two additional students the District determined that the students should be removed from the program, however, as of January 2007 these two students were still receiving reduced or free benefits.

Effect: Two students were paying a reduced price when they should have been receiving free meals, two students were receiving reduced benefits that should have been removed from the program, one student was receiving free benefits that should have been reduced, and one student was receiving free benefits that should have been removed from the program.

Recommendation: The District should implement controls that will provide a review of the initial determinations made to eliminate errors. During the verification process, verifications need to be done accurately and follow up on those students who's status is changed to make sure benefits receiving, if any, are proper.

Corrective Action: Contact Person: Dan Griscom, Treasurer

The food service supervisor has taken steps to correct this problem. The supervisor has improved record-keeping, and the supervisor has instructed cooks/cashiers on eligibility issues. In addition, the District has put into operation a "point of sale" system, which greatly improves the determination, verification, processing and monitoring of free and reduced price benefits.

The food service department will follow the following specific procedures to address this concern:

ASHLAND CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

The food service department will receive the applications and will input all information into the point of sale system (VIBOSS). The program will then process each application and calculate whether it is free, reduced, or full pay. This determination will then will be double checked manually by another staff member for verification, then it will be filed. If the application is not done properly or is in question, the student will be put on a temporary status and then notified to resubmit. The VIBOSS program will then notify the user when the temporary application will expire to resubmit or terminated. The temporary files will be held in a separate file to be reviewed as necessary.

The verification process will be done by a second employee of the food service department and then be double-checked by the food service director and signed off with initials. A copy of all letters and correspondence will be held in the file and dated as they were sent. A listing of the dates of the changes made will also be filed and double-checked by another employee. The VIBOSS program will assist in the verification process in determining the mathematical calculation but will be double-checked manually and initialed by the designated employee.

Finding 2007-03 Noncompliance/Significant Deficiency

Federal Program: Child Nutrition Cluster – Fiscal Year 2007
Identification Number: 043505-LLP4-2007, 043505-LLP4-2006, 043505-05PU-2007, and
043505-05PU-2006
CFDA Number: 10.553 and 10.555
Federal Agency: U.S. Department of Agriculture
Pass Through Entity: Ohio Department of Education

Criteria: 7 CFR 210.7(c) states that the school food authority shall, at a minimum base Claims for Reimbursement on lunch counts, taken daily at the point of service, which correctly identify the number of free, reduced price and paid lunches served to eligible children; correctly record, consolidate and report those lunch and supplement counts on the Claim for Reimbursement; and ensure that Claims for Reimbursement do not request payment for any excess lunches

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**FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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produced, as prohibited in §210.10(a)(2), or non-Program lunches or for more than one meal supplement per child per day.

Condition Found: The District reported more meals than that which was served on their Site Claim Form for Osborn Elementary School for the month of November 2006. The District reported the following:

<u>Item</u>	<u>Reported</u>	<u>Actual</u>	<u>Variance</u>
Lunch - Paid Student Meals at Price No. 1	943	938	5
Breakfast - Paid Student Meals at Price No. 1	247	229	18
Breakfast - Needy Free Student Meals	1,726	1,574	152
Breakfast - Needy Reduced Prince Student Meals	285	249	36

Effect: The District received reimbursement for meals that were not served.

Recommendation: The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the School Food Authority; comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems. (7 CFR 210.8)

Corrective Action: Contact Person: Dan Griscom, Treasurer

The food service supervisor has taken steps to correct this problem. The food service department has put into operation a “point of sale” system, which greatly improves the accuracy of lunch counts and proper coordination with free and reduced eligibility.

This point of sale system (VIBOSS), as of February 2008, is in all buildings with the exception of one small elementary school. With the new system, food service employees no longer use the paper tally system that allowed for mistakes in tabulation or miscommunication of free/reduced applicants. This system should prevent errors in the
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

eligibility of each student, as the system holds all the application and updates the data nightly.

Prior to submitting a monthly claim, CN-6 and CN-7 reports will be run with the daily counts generated from the program. A claim report with all the monthly totals and information to submit will also be run. Another food service employee or the business manager will review each day's totals for accuracy. The employee will then double-check the report with the claim sheet, and initial it prior to submitting to the state for reimbursement. Copies of these reports will remain on file in the food service department.

The new point of sale system will not allow over-claiming on any given day per building. This system counts meals served as students put in their Student ID numbers, then calculates the number so there can be no human error in addition.

**ASHLAND CITY SCHOOL DISTRICT
ASHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; Explain
2006-01	7 CFR 3015.169 Physical inventory of equipment not done in past two years	Yes	Corrective Action Taken
2006-02	7 CFR 245.6a Verification Requirements and Termination of Benefits.	No	Partially Corrected



Mary Taylor, CPA
Auditor of State

ASHLAND CITY SCHOOL DISTRICT

ASHLAND 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
MAY 13, 2008**