

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2010***

NICOLE SPRIGGS, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Berlin-Milan Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

January 21, 2011

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Berlin-Milan Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Berlin-Milan Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, as of June 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010 on our consideration of the Berlin-Milan Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

We conducted our audit to opine on the financial statements that collectively comprise the Berlin-Milan Local School District's basic financial statements. The schedule of receipts and expenditures of federal awards is 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. We subjected the schedule of receipts and expenditures of federal awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
December 13, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Berlin-Milan Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities increased \$322,061 which represents a 3.71% increase from 2009.
- General revenues accounted for \$14,093,800 in revenue or 82.68% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,952,294 or 17.32% of total revenues of \$17,046,094.
- The District had \$16,724,033 in expenses related to governmental activities; only \$2,952,294 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,093,800 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$13,909,830 in revenues and \$13,871,475 in expenditures. During fiscal year 2010, the general fund's fund balance increased \$46,926 from \$3,437,262 to \$3,484,188.
- The District's permanent improvement fund had \$713,500 in revenues and \$672,125 in expenditures. During fiscal year 2010, the permanent improvement fund's fund balance increased \$41,375 from \$1,350,586 to \$1,391,961.

Using the Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current assets	\$ 14,684,123	\$ 14,387,347
Capital assets, net	<u>3,850,526</u>	<u>3,659,191</u>
Total assets	<u>18,534,649</u>	<u>18,046,538</u>
<u>Liabilities</u>		
Current liabilities	8,754,999	8,494,550
Long-term liabilities	<u>768,446</u>	<u>862,845</u>
Total liabilities	<u>9,523,445</u>	<u>9,357,395</u>
<u>Net Assets</u>		
Invested in capital assets	3,850,526	3,659,191
Restricted	1,856,189	1,552,843
Unrestricted	<u>3,304,489</u>	<u>3,477,109</u>
Total net assets	<u>\$ 9,011,204</u>	<u>\$ 8,689,143</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$9,011,204. At year-end, unrestricted net assets were \$3,304,489.

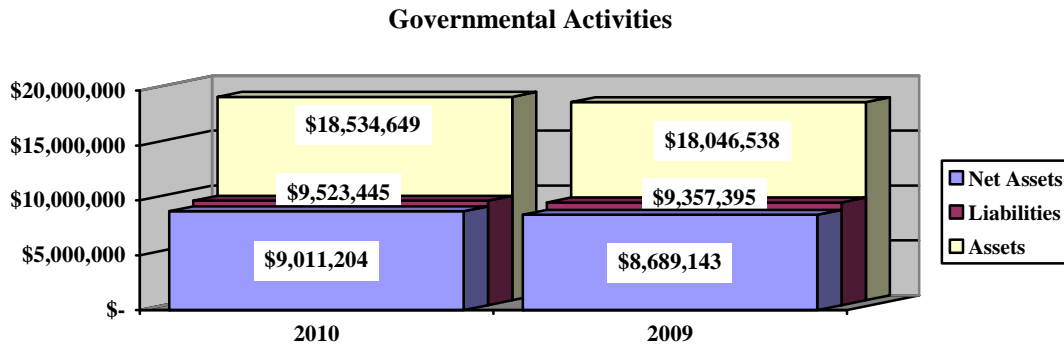
**BERLIN-MILAN LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

At year-end, capital assets represented 20.77% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of accumulated depreciation at June 30, 2010, were \$3,850,526. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$1,856,189, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,304,489 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's governmental activities assets, liabilities and net assets for June 30, 2010 and 2009:



The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,284,508	\$ 1,083,383
Operating grants and contributions	1,667,786	1,745,892
Capital grants and contributions	-	16,057
General revenues:		
Taxes	6,190,282	6,369,732
Grants and entitlements	7,837,500	7,413,241
Investment earnings	43,920	108,013
Other	22,098	25,496
Total revenues	17,046,094	16,761,814

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Change in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	7,274,829	7,119,797
Special	2,646,281	2,415,430
Vocational	69,046	62,317
Other	526,695	445,954
Support services:		
Pupil	939,981	899,191
Instructional staff	364,351	416,063
Board of education	34,622	29,183
Administration	1,268,200	1,294,483
Fiscal	303,023	287,032
Operations and maintenance	941,528	1,268,366
Pupil transportation	706,079	840,141
Central	149,935	156,555
Operations of non-instructional services:		
Food service operations	630,491	638,655
Other non-instructional services	114,897	-
Extracurricular activities	<u>754,075</u>	<u>631,464</u>
Total expenses	<u>16,724,033</u>	<u>16,504,631</u>
Change in net assets	322,061	257,183
Net assets at beginning of year	<u>8,689,143</u>	<u>8,431,960</u>
Net assets at end of year	<u>\$ 9,011,204</u>	<u>\$ 8,689,143</u>

Governmental Activities

Net assets of the District's governmental activities increased \$322,061. Total governmental expenses of \$16,724,033 were offset by program revenues of \$2,952,294 and general revenues of \$14,093,800. Program revenues supported 17.65% of the total governmental expenses.

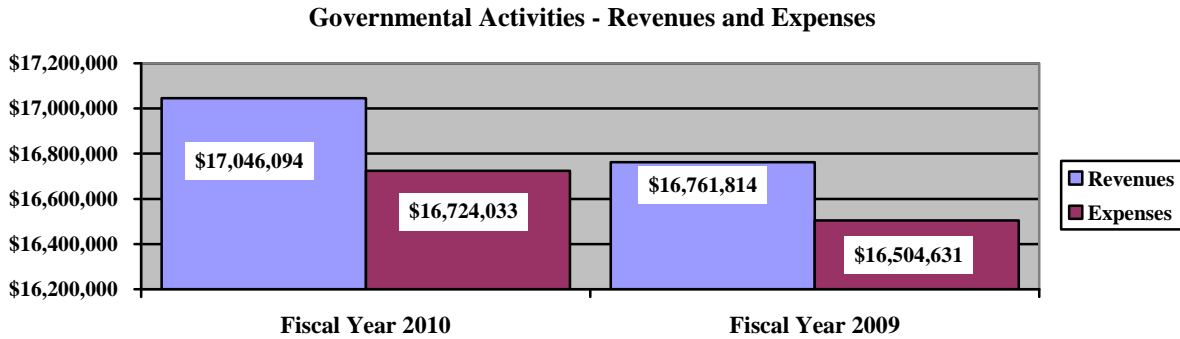
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.29% of total governmental revenue. Real estate property is reappraised every six years.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,516,851 or 62.88% of total governmental expenses for fiscal year 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.



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

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 7,274,829	\$ 6,798,112	\$ 7,119,797	\$ 6,556,309
Special	2,646,281	2,160,380	2,415,430	1,484,829
Vocational	69,046	57,239	62,317	50,598
Other	526,695	514,698	445,954	445,954
Support services:				
Pupil	939,981	513,109	899,191	612,933
Instructional staff	364,351	336,691	416,063	386,947
Board of education	34,622	34,622	29,183	29,183
Administration	1,268,200	1,221,196	1,294,483	1,283,826
Fiscal	303,023	298,023	287,032	282,030
Operations and maintenance	941,528	621,857	1,268,366	1,258,954
Pupil transportation	706,079	667,377	840,141	770,404
Central	149,935	149,935	156,555	156,501
Operations of non-instructional services				
Food service operations	630,491	5,562	638,655	(24,611)
Other non-instructional services	114,897	65,008	-	-
Extracurricular activities	754,075	327,930	631,464	365,442
Total expenses	<u>\$ 16,724,033</u>	<u>\$ 13,771,739</u>	<u>\$ 16,504,631</u>	<u>\$ 13,659,299</u>

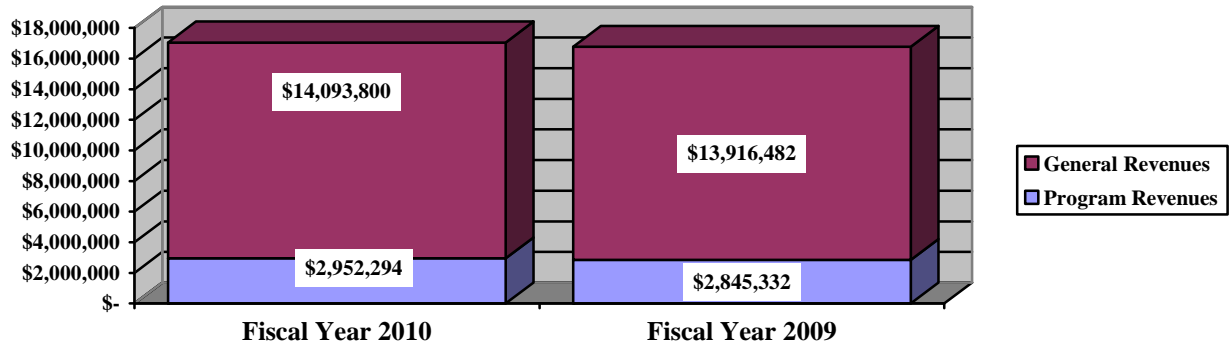
The dependence upon tax and other general revenues for governmental activities is apparent, 90.62% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.35%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$5,240,740 which is higher than last year's total of \$5,197,384. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Increase (Decrease)</u>
General	\$ 3,484,188	\$ 3,437,262	\$ 46,926
Permanent Improvement	1,391,961	1,350,586	41,375
Other Governmental	<u>364,591</u>	<u>409,536</u>	<u>(44,945)</u>
Total	<u>\$ 5,240,740</u>	<u>\$ 5,197,384</u>	<u>\$ 43,356</u>

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balances of the other governmental funds is primarily due to a fund balance decrease of \$58,583 in the title I fund. The decrease was a result of operation expenditures exceeding federal grant revenues in the title I fund.

General Fund

The District's general fund balance increased \$46,926.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

	<u>2010</u>	<u>2009</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,568,603	\$ 5,842,537	(4.69) %
Tuition	390,014	323,220	20.67 %
Earnings on investments	69,238	81,973	(15.54) %
Intergovernmental	7,732,473	7,861,476	(1.64) %
Other revenues	<u>149,502</u>	<u>84,039</u>	77.90 %
Total	<u>\$ 13,909,830</u>	<u>\$ 14,193,245</u>	(2.00) %
<u>Expenditures</u>			
Instruction	\$ 9,587,533	\$ 9,381,869	2.19 %
Support services	3,813,135	4,603,449	(17.17) %
Operation of non-instructional services	72,513	-	100.00 %
Extracurricular activities	<u>398,294</u>	<u>386,366</u>	3.09 %
Total	<u>\$ 13,871,475</u>	<u>\$ 14,371,684</u>	(3.48) %

Tuition revenue increased as a result of an increase in open enrollment. Interest revenues decreased due to reduced interest received on the District's investments during the fiscal year. Overall revenues remained relatively unchanged from 2009 to 2010. The increase in instructional expenditures is primarily due to increases in wages and fringe benefits.

Permanent Improvement Fund

The District's permanent improvement fund balance increased \$41,375. The increase in fund balance can be primarily attributed to revenues exceeding expenses.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$13,387,405 were increased to \$13,437,855 in the final budgeted revenues estimate. Actual revenues and other financing sources for fiscal year 2010 was \$13,905,185. This represents a \$467,330 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$15,529,587 were decreased to \$15,305,593 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$14,394,418, which was \$911,175 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$3,850,526 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2010 balances compared to June 30, 2009:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 469,195	\$ 469,195
Land improvements	57,310	39,889
Building and improvements	1,661,929	1,632,231
Furniture and equipment	1,107,594	1,089,431
Vehicles	<u>554,498</u>	<u>428,445</u>
Total	<u>\$ 3,850,526</u>	<u>\$ 3,659,191</u>

Total additions to capital assets for 2010 were \$649,581. The District recorded \$423,959 in depreciation expense for fiscal year 2010.

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

Debt Administration

At June 30, 2010, the District did not have any outstanding debt obligations.

Current Financial Related Activities

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

In the area of real estate taxes, the effective tax rate for residential and agricultural property in the Berlin-Milan School District is at the 20 mil floor. The District is not anticipating any growth in State revenue and is projecting a cut in State funding for fiscal year 2012. With the recent elimination of the tangible personal property tax, the concern is that this funding change will have a profound negative financial impact on the District and ultimately the District's residential taxpayers.

The District currently has an adequate cash balance to meet operating expenses for the next several years. However, in fiscal year 2011 our projections show operating expenses exceeding operating revenue and that trend is projected to continue over the remainder of the District's five-year forecast. The current cash balance is not sufficient to sustain the District throughout the present five-year forecast. The District placed a request for new funds on the November 2010 ballot. The Board and Administration will continue to monitor these projections, updating them with pertinent information as it becomes available, and utilize these projections in the decision making process.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,240,455
Receivables:	
Taxes	8,251,158
Accounts.	11,154
Intergovernmental	98,009
Accrued interest	1,492
Loans receivable	15
Prepayments	31,797
Materials and supplies inventory.	50,043
Capital assets:	
Land	469,195
Depreciable capital assets, net.	3,381,331
Capital assets, net	<u>3,850,526</u>
 Total assets.	 <u>18,534,649</u>
 Liabilities:	
Accounts payable.	93,422
Accrued wages and benefits	1,262,202
Pension obligation payable.	364,245
Intergovernmental payable	83,983
Unearned revenue	6,951,147
Long-term liabilities:	
Due within one year.	54,796
Due in more than one year	713,650
 Total liabilities	 <u>9,523,445</u>
 Net Assets:	
Invested in capital assets	3,850,526
Restricted for:	
Capital projects	1,391,961
Locally funded programs	29,449
State funded programs.	37,997
Federally funded programs	3,621
Student activities	62,850
Other purposes	330,311
Unrestricted.	<u>3,304,489</u>
 Total net assets	 <u>\$ 9,011,204</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 7,274,829	\$ 406,491	\$ 70,226	\$ (6,798,112)
Special	2,646,281	42,668	443,233	(2,160,380)
Vocational	69,046	-	11,807	(57,239)
Other	526,695	-	11,997	(514,698)
Support services:				
Pupil	939,981	27,421	399,451	(513,109)
Instructional staff	364,351	132	27,528	(336,691)
Board of education	34,622	-	-	(34,622)
Administration	1,268,200	5,108	41,896	(1,221,196)
Fiscal	303,023	-	5,000	(298,023)
Operations and maintenance	941,528	181	319,490	(621,857)
Pupil transportation	706,079	-	38,702	(667,377)
Central	149,935	-	-	(149,935)
Operation of non-instructional services:				
Food service operations	630,491	383,541	241,388	(5,562)
Other non-instructional services	114,897	22,485	27,404	(65,008)
Extracurricular activities	754,075	396,481	29,664	(327,930)
Total governmental activities	\$ 16,724,033	\$ 1,284,508	\$ 1,667,786	(13,771,739)
		General Revenues:		
		Property taxes levied for:		
		General purposes	5,626,647	
		Capital projects	563,635	
		Grants and entitlements not restricted to specific programs	7,837,500	
		Investment earnings	43,920	
		Miscellaneous	22,098	
		Total general revenues	14,093,800	
		Change in net assets		322,061
		Net assets at beginning of year		8,689,143
		Net assets at end of year		\$ 9,011,204

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 4,291,974	\$ 1,377,284	\$ 557,070	\$ 6,226,328
Receivables:				
Taxes.	7,548,106	703,052	-	8,251,158
Accounts.	969	-	10,185	11,154
Intergovernmental	13,714	-	84,295	98,009
Accrued interest	1,492	-	-	1,492
Interfund loans.	248	-	-	248
Loans receivable	15	-	-	15
Prepayments.	31,590	-	207	31,797
Materials and supplies inventory.	23,576	-	26,467	50,043
Restricted assets:				
Equity in pooled cash and cash equivalents	14,127	-	-	14,127
Total assets	<u>\$ 11,925,811</u>	<u>\$ 2,080,336</u>	<u>\$ 678,224</u>	<u>\$ 14,684,371</u>
Liabilities:				
Accounts payable	\$ 24,727	\$ 60,620	\$ 8,075	\$ 93,422
Accrued wages and benefits.	1,149,354	-	112,848	1,262,202
Compensated absences payable	40,758	-	-	40,758
Interfund loans payable.	-	-	248	248
Pension obligation payable	308,977	-	55,268	364,245
Intergovernmental payable	76,744	-	7,239	83,983
Deferred revenue	520,662	42,917	84,047	647,626
Unearned revenue.	6,320,401	584,838	45,908	6,951,147
Total liabilities.	<u>8,441,623</u>	<u>688,375</u>	<u>313,633</u>	<u>9,443,631</u>
Fund Balances:				
Reserved for encumbrances	317,879	77,285	25,311	420,475
Reserved for materials and supplies inventory.	23,576	-	26,467	50,043
Reserved for prepayments.	31,590	-	207	31,797
Reserved for tax revenue unavailable for appropriation	722,249	75,297	-	797,546
Reserved for school bus purchases	14,127	-	-	14,127
Unreserved, undesignated, reported in:				
General fund.	2,374,767	-	-	2,374,767
Special revenue funds	-	-	312,606	312,606
Capital projects fund	-	1,239,379	-	1,239,379
Total fund balances	<u>3,484,188</u>	<u>1,391,961</u>	<u>364,591</u>	<u>5,240,740</u>
Total liabilities and fund balances	<u>\$ 11,925,811</u>	<u>\$ 2,080,336</u>	<u>\$ 678,224</u>	<u>\$ 14,684,371</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$ 5,240,740
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,850,526
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 548,373	
Intergovernmental receivable	97,761	
Accrued interest receivable	<u>1,492</u>	
Total		647,626
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(727,688)</u>
Net assets of governmental activities		<u><u>\$ 9,011,204</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 5,568,603	\$ 557,964	\$ -	\$ 6,126,567
Tuition.	390,014	-	67,563	457,577
Charges for services	-	-	383,541	383,541
Earnings on investments	69,238	-	104	69,342
Extracurricular.	80,495	-	315,986	396,481
Rentals.	181	-	-	181
Classroom materials and fees	46,728	-	-	46,728
Contributions and donations	-	-	27,617	27,617
Other local revenues	22,098	-	10,367	32,465
Intergovernmental - Intermediate	-	-	20,905	20,905
Intergovernmental - State	7,680,701	155,536	98,982	7,935,219
Intergovernmental - Federal	51,772	-	1,375,255	1,427,027
Total revenue	<u>13,909,830</u>	<u>713,500</u>	<u>2,300,320</u>	<u>16,923,650</u>
Expenditures:				
Current:				
Instruction:				
Regular.	6,839,284	281,255	114,030	7,234,569
Special	2,164,505	-	464,269	2,628,774
Vocational	69,046	-	-	69,046
Other	514,698	-	11,997	526,695
Support services:				
Pupil	564,747	-	362,376	927,123
Instructional staff	303,926	57,660	26,379	387,965
Board of education	34,622	-	-	34,622
Administration	1,215,285	-	46,070	1,261,355
Fiscal	280,254	11,800	5,016	297,070
Operations and maintenance	631,827	-	319,492	951,319
Pupil transportation	631,781	132,326	-	764,107
Central	150,693	-	-	150,693
Operation of non-instructional services:				
Food service operations	-	-	602,338	602,338
Other non-instructional services	72,513	-	42,384	114,897
Extracurricular activities	398,294	-	345,954	744,248
Facilities acquisition and construction.	-	189,084	-	189,084
Total expenditures	<u>13,871,475</u>	<u>672,125</u>	<u>2,340,305</u>	<u>16,883,905</u>
Net change in fund balances	38,355	41,375	(39,985)	39,745
Fund balances at beginning of year	3,437,262	1,350,586	409,536	5,197,384
Increase (decrease) in reserve for inventory.	8,571	-	(4,960)	3,611
Fund balances at end of year.	<u>\$ 3,484,188</u>	<u>\$ 1,391,961</u>	<u>\$ 364,591</u>	<u>\$ 5,240,740</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ 39,745

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 those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	649,581	
Current year depreciation		<u>(423,959)</u>	
Total			225,622

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (34,287)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 3,611

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

Taxes		63,715	
Intergovernmental revenue		97,761	
Earnings on investments		<u>(25,318)</u>	
Total			136,158

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (48,788)

Change in net assets of governmental activities \$ 322,061

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 5,335,609	\$ 5,443,000	\$ 5,531,356	\$ 88,356
Tuition.	376,212	337,000	390,014	53,014
Earnings on investments	75,603	70,500	78,377	7,877
Rentals.	580	650	601	(49)
Extracurricular.	77,646	57,000	80,495	23,495
Classroom materials and fees	45,141	40,200	46,797	6,597
Other local revenues	9,782	5,005	10,141	5,136
Intergovernmental - State	7,408,892	7,476,500	7,680,701	204,201
Intergovernmental - Federal	49,940	-	51,772	51,772
Total revenue	<u>13,379,405</u>	<u>13,429,855</u>	<u>13,870,254</u>	<u>440,399</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,553,736	12,167,316	7,005,963	5,161,353
Special.	2,353,244	1,095,147	2,182,594	(1,087,447)
Vocational.	75,220	15,438	69,765	(54,327)
Other.	555,105	453,500	514,851	(61,351)
Support Services:				
Pupil.	613,607	112,907	569,110	(456,203)
Instructional staff	388,621	39,946	360,439	(320,493)
Board of education	43,639	20,810	40,474	(19,664)
Administration.	1,448,164	194,675	1,343,148	(1,148,473)
Fiscal	296,720	40,245	275,203	(234,958)
Operations and maintenance.	811,338	682,370	752,502	(70,132)
Pupil transportation	714,078	319,239	662,295	(343,056)
Central.	161,934	142,000	150,191	(8,191)
Operation of non-instructional services:				
Other non-instructional services	64,984	-	60,272	(60,272)
Extracurricular activities	439,197	12,000	407,348	(395,348)
Total expenditures	<u>15,519,587</u>	<u>15,295,593</u>	<u>14,394,155</u>	<u>901,438</u>
Excess of expenditures over revenues.	<u>(2,140,182)</u>	<u>(1,865,738)</u>	<u>(523,901)</u>	<u>1,341,837</u>
Other financing sources (uses):				
Refund of prior year's expenditures	8,000	8,000	34,931	26,931
Advances (out)	(10,000)	(10,000)	(263)	9,737
Total other financing sources (uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>34,668</u>	<u>36,668</u>
Net change in fund balance	(2,142,182)	(1,867,738)	(489,233)	1,378,505
Fund balance at beginning of year	4,189,568	4,189,568	4,189,568	-
Prior year encumbrances appropriated	263,884	263,884	263,884	-
Fund balance at end of year	<u>\$ 2,311,270</u>	<u>\$ 2,585,714</u>	<u>\$ 3,964,219</u>	<u>\$ 1,378,505</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 102,532	\$ 64,067
Receivables:		
Taxes	-	359,233
Accounts	-	30
Accrued interest.	<u>120</u>	<u>-</u>
Total assets.	<u>102,652</u>	<u>\$ 423,330</u>
Liabilities:		
Accounts payable.	-	\$ 147
Due to students.	-	63,935
Due to other governments	-	359,233
Loans payable	<u>-</u>	<u>15</u>
Total liabilities	<u>-</u>	<u>\$ 423,330</u>
Net Assets:		
Held in trust for scholarships	<u>102,652</u>	
Total net assets	<u>\$ 102,652</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,113
Total additions.	1,113
Deductions:	
Scholarships awarded	1,700
Change in net assets.	(587)
Net assets at beginning of year	103,239
Net assets at end of year.	\$ 102,652

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 332nd largest by enrollment among the 905 public school districts and community schools in the State of Ohio and is the 4th largest in Erie County. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 83 non-certified and 112 certified employees to provide services to 1,653 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

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

EHOVE Career Center

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

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. During the fiscal year, the District paid NOECA \$77,663 for services. Financial information can be obtained from its fiscal agent, the North Point Educational Service Center, Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Milan-Berlin Township Public Library

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group II Program

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

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

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

Other governmental funds of the District are used to account for (a) grants and other resources whose use is restricted to a particular purpose; and (b) food service operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for tax rate determination. The Erie County Commissioners waived this requirement for fiscal year 2010.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2010. All amounts reported in the budgetary statement reflect the original and final appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2010, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposits, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$69,238, which includes \$21,878 assigned from other District funds.

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

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

G. Inventory

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

R. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set-aside for State monies received for school bus purchases. See Note 15 for additional information regarding set-asides.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Title I	\$ 62,481
IDEA grant	22,836
Improving teacher quality	193

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,952,756. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$1,080,036 of the District's bank balance of \$2,330,036 was exposed to custodial risk as discussed below, while \$1,250,000 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	<u>\$ 4,449,998</u>	<u>\$ 4,449,998</u>

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio Law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 4,449,998</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,952,756
Investments	4,449,998
Cash on hand	4,300
Total	<u>\$ 6,407,054</u>
 <u>Cash and cash equivalents per statement of net assets</u>	
Governmental activities	\$ 6,240,455
Private-purpose trust funds	102,532
Agency funds	64,067
Total	<u>\$ 6,407,054</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2010 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 248
General fund	Agency fund	<u>15</u>
Total interfund loans receivable/payable		<u>\$ 263</u>

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

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

Interfund loans between governmental funds and agency funds appear as “loans receivable/payable” on the statement of net assets, the balance sheet and the statement of fiduciary net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 6 - PROPERTY TAXES - (Continued)

Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie and Huron Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$722,249 in the general fund and \$75,297 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$685,002 in the general fund and \$71,497 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 215,945,730	93.35	\$ 221,231,690	95.57
Public utility personal	9,715,970	4.20	10,246,780	4.43
Tangible personal property	<u>5,661,880</u>	<u>2.45</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 231,323,580</u>	<u>100.00</u>	<u>\$ 231,478,470</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$66.95		\$66.95	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:	
Taxes	\$ 8,251,158
Accounts	11,154
Intergovernmental	98,009
Accrued interest	<u>1,492</u>
Total	<u>\$ 8,361,813</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

	Balance			Balance
	<u>06/30/2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/2010</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 469,195	\$ -	\$ -	\$ 469,195
Total capital assets, not being depreciated	<u>469,195</u>	<u>-</u>	<u>-</u>	<u>469,195</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	848,165	22,875	-	871,040
Buildings and improvements	6,980,386	186,568	-	7,166,954
Furniture and equipment	2,523,309	211,860	(145,113)	2,590,056
Vehicles	<u>1,375,671</u>	<u>228,278</u>	<u>(115,656)</u>	<u>1,488,293</u>
Total capital assets, being depreciated	<u>11,727,531</u>	<u>649,581</u>	<u>(260,769)</u>	<u>12,116,343</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(808,276)	(5,454)	-	(813,730)
Buildings and improvements	(5,348,155)	(156,870)	-	(5,505,025)
Furniture and equipment	(1,433,878)	(170,976)	122,392	(1,482,462)
Vehicles	<u>(947,226)</u>	<u>(90,659)</u>	<u>104,090</u>	<u>(933,795)</u>
Total accumulated depreciation	<u>(8,537,535)</u>	<u>(423,959)</u>	<u>226,482</u>	<u>(8,735,012)</u>
Governmental activities capital assets, net	<u>\$ 3,659,191</u>	<u>\$ 225,622</u>	<u>\$ (34,287)</u>	<u>\$ 3,850,526</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 213,635
Special	1,364
<u>Support services:</u>	
Pupil	647
Instructional staff	13,865
Administration	19,616
Fiscal	4,429
Operations and maintenance	28,084
Pupil transportation	96,987
Food service operations	26,640
Extracurricular activities	<u>18,692</u>
Total depreciation expense	<u>\$ 423,959</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding	Amounts Due in
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>One Year</u>
Governmental activities:					
Compensated absences	\$ 862,845	\$ 107,270	\$ (201,669)	\$ 768,446	\$ 54,796
Total long-term obligations, governmental activities	<u>\$ 862,845</u>	<u>\$ 107,270</u>	<u>\$ (201,669)</u>	<u>\$ 768,446</u>	<u>\$ 54,796</u>

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

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$20,833,062 and an unvoted debt margin of \$231,478.

NOTE 10 - RISK MANAGEMENT

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 10 - RISK MANAGEMENT - (Continued)

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

For fiscal year 2010, the District participated in the Ohio School Boards Association Workers' Compensation Group II Program ("Program"). The intent of the Program is to assist the district to manage workers' compensation costs and to potentially improve the district's current workers' compensation situation. Participation in the Program is limited to school districts that can meet the Ohio School Boards Association's edibility criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Program.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$259,316, \$191,752 and \$182,795, respectively; 45.84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 11 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$887,793, \$843,933 and \$801,715, respectively; 83.77 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$12,309 made by the District and \$8,792 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$40,690, \$117,326 and \$111,896, respectively; 45.84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$15,421, \$15,821 and \$13,171, respectively; 45.84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$68,292, \$64,918 and \$61,670, respectively; 83.77 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General fund</u>
Net Change in Fund Balance	
Budget basis	\$ (489,233)
Net adjustment for revenue accruals	39,576
Net adjustment for expenditure accruals	180,798
Net adjustment for other sources/uses	(34,668)
Adjustment for encumbrances	<u>341,882</u>
GAAP basis	<u>\$ 38,355</u>

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbook/ Instructional <u>Materials</u>	Capital <u>Maintenance</u>
Set-aside balance as of June 30, 2009	\$ (366,051)	\$ (3,324,671)
Current year set-aside requirement	269,951	269,951
Current year offsets	(104,881)	(449,283)
Qualifying expenditures	<u>(231,549)</u>	<u>-</u>
Total	<u>\$ (432,530)</u>	<u>\$ (3,504,003)</u>
Balance carried forward to fiscal year 2011	<u>\$ (432,530)</u>	<u>\$ (3,324,671)</u>

The District had qualifying disbursements in prior years that reduced the capital maintenance and textbook/instructional materials set-aside amounts below zero. The textbook/instructional materials and capital maintenance qualifying disbursement amounts may be used to reduce the set-aside requirements of future years. The negative amounts related to qualifying disbursements are therefore presented as being carried forward to the next fiscal year.

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

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for school bus purchases	<u>\$ 14,127</u>
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SUPPLEMENTARY DATA

**BERLIN-MILAN LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Nutrition Grant Cluster:				
(C) (D) School Breakfast Program	10.553	2010	\$ 33,098	\$ 33,098
(D) (E) National School Lunch Program - Food Donation	10.555	2010	35,494	35,494
(C) (D) National School Lunch Program	10.555	2010	192,983	192,983
Total National School Lunch Program			<u>228,477</u>	<u>228,477</u>
Total U.S. Department of Agriculture and Nutrition Grant Cluster			<u>261,575</u>	<u>261,575</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grant Cluster:				
(F) Title I Grants to Local Educational Agencies	84.010	2009	20,774	25,166
(F) Title I Grants to Local Educational Agencies	84.010	2010	190,881	182,683
Total Title I Grants to Local Educational Agencies			<u>211,655</u>	<u>207,849</u>
(F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2010	102,938	95,124
Total Title I Grant Cluster			<u>314,593</u>	<u>302,973</u>
Special Education Grant Cluster:				
(G) Special Education Grants to States	84.027	2009	-	18,119
(G) Special Education Grants to States	84.027	2010	286,909	282,121
Total Special Education Grants to States			<u>286,909</u>	<u>300,240</u>
(G) ARRA - Special Education Grants to States, Recovery Act	84.391	2010	178,514	137,670
(G) Special Education Preschool Grants	84.173	2010	16,941	17,616
(G) ARRA - Special Education Preschool Grants, Recovery Act	84.392	2010	3,000	-
Total Special Education Grant Cluster			<u>485,364</u>	<u>455,526</u>
(H) Safe and Drug-Free Schools and Communities State Grants	84.186	2009	(63)	2,376
(H) Safe and Drug-Free Schools and Communities State Grants	84.186	2010	2,917	2,530
Total Safe and Drug-Free Schools and Communities State Grants			<u>2,854</u>	<u>4,906</u>
Education Technology State Grants	84.318	2010	533	600
Improving Teacher Quality State Grants	84.367	2010	45,303	45,303
ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act	84.394	2010	366,288	366,288
Total U.S. Department of Education			<u>1,214,935</u>	<u>1,175,596</u>
Total Federal Financial Assistance			<u>\$ 1,476,510</u>	<u>\$ 1,437,171</u>

- (A) OAKS did not assign pass-through numbers for fiscal year 2010.
 (B) This schedule was prepared on the cash basis of accounting.
 (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (D) Included as part of the "Nutrition Grant Cluster" in determining major programs.
 (E) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at entitlement value.
 (F) Included as part of the "Title I Grant Cluster" in determining major programs.
 (G) Included as part of the "Special Education Grant Cluster" in determining major programs.
 (H) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District may transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2010, the ODE authorized the following transfers:

Program Title	CFDA	Grant Year	Transfer In	Transfer Out
Safe and Drug-Free Schools and Communities State Grants	84.186	2009		\$ 63
Safe and Drug-Free Schools and Communities State Grants	84.186	2010	\$ 63	
Totals			<u>\$ 63</u>	<u>\$ 63</u>



Julian & Grube, Inc.
Serving Ohio Local Governments

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

**Report on 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***

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berlin-Milan Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2010, which collectively comprise Berlin-Milan Local School District's basic financial statements and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Board of Education
Berlin-Milan Local School District

Compliance and Other Matters

As part of reasonably assuring whether the Berlin-Milan Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 we must report under *Government Auditing Standards*.

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

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

Julian & Grube, Inc.
December 13, 2010



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Berlin-Milan Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that apply to each of its major federal programs for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Berlin-Milan Local School District's major federal programs. The Berlin-Milan Local School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Berlin-Milan Local School District's compliance based on our audit.

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

In our opinion, the Berlin-Milan Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

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

Board of Education
Berlin-Milan Local School District

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

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

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

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

Julian & Grube, Inc.
December 13, 2010

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Title I Grant Cluster: Title I Grants to Local Educational Agencies - CFDA #84.010; ARRA - Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389; Special Education Grant Cluster: Special Education Grants to States - CFDA #84.027; Special Education Preschool Grants - CFDA #84.173; ARRA - Special Education Grants to States, Recovery Act - CFDA # 84.391; ARRA - Special Education Preschool Grants, Recovery Act - CFDA #84.392; ARRA - State Fiscal Stabilization Fund, Education State Grants, Recovery Act - CFDA #84.394
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

BERLIN-MILAN LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 3, 2011**