



Mary Taylor, CPA  
Auditor of State



**BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY**

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BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Blanchester Local School District  
Clinton County  
951 Cherry Street  
Blanchester, Ohio 45107

To the Board of Education

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio, as of June 30, 2007, and the respective changes in financial position, and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

**BLANCHESTER LOCAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2007  
(Unaudited)**

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

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets decreased \$646,420 which represents a 3% decrease from 2006.
- General revenues accounted for \$11,870,921 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,614,398 or 23% of total revenues of \$15,485,319.
- The District had \$16,131,739 in expenses related to governmental activities; \$3,614,398 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,870,921 were also used to provide for these programs.

**OVERVIEW OF THE 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. The General Fund is the major funds of the District.

**Government-wide Financial Statements**

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 2007?" The Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report 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 has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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 Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

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

### **Fund Financial Statements**

The analysis of the District's major funds is presented in the Fund Financial Statements. 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.

***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* that can readily be converted to cash. The governmental fund 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 financial statements.

***Fiduciary Funds*** Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

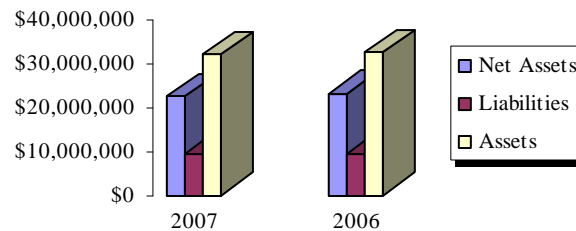


## The District as a Whole

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

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

	2007	2006
<b>Assets</b>		
Current Assets	\$7,124,309	\$6,405,070
Capital Assets	24,913,802	26,082,203
<b>Total Assets</b>	<b>32,038,111</b>	<b>32,487,273</b>
<b>Liabilities</b>		
Long-Term Liabilities	4,271,777	4,504,251
Other Liabilities	5,309,535	4,879,803
<b>Total Liabilities</b>	<b>9,581,312</b>	<b>9,384,054</b>
<b>Net Assets</b>		
<b>Invested in Capital</b>		
Assets Net of Debt	21,204,225	22,168,203
Restricted	1,046,939	762,932
Unrestricted	205,635	172,084
<b>Total Net Assets</b>	<b>\$22,456,799</b>	<b>\$23,103,219</b>



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$22,456,799.

At year end, capital assets represented 78% of total assets. Capital assets include land, buildings and improvements, and equipment. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2007 were \$21,204,225. These net assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,046,939 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$205,635 may be used to meet the District's ongoing obligations to the students and creditors.

Current asset and other liabilities increased from the prior year primarily due to the increase in the amount of taxes receivable and deferred revenue for the District. The District's decrease in capital assets is due to the recognition of \$1,171,589 depreciation expense offset by \$6,600 in equipment additions. Long-term liabilities decreased from 2006 due primarily to the District making regularly scheduled debt service payments for the current year. Invested in capital assets net of debt decreased due to the decrease in capital assets, as explained earlier and the District's principal payments on the debt related to the capital assets.

Table 2 shows the change in net assets for fiscal year 2007 with comparisons to fiscal year 2006.

Table 2  
Changes in Net Assets

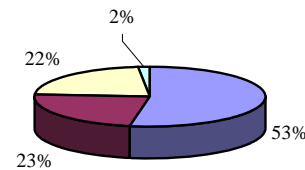
	Governmental Activities	
	2007	2006 Restated
Revenues		
Program Revenues:		
Charges for Services	\$1,427,284	\$1,412,576
Operating Grants	2,169,221	1,994,845
Capital Grants	17,893	28,637
General Revenue:		
Property Taxes	3,410,932	3,440,970
Grants and Entitlements	8,184,995	8,021,299
Other	274,994	270,506
Total Revenues	<u>15,485,319</u>	<u>15,168,833</u>
Program Expenses:		
Instruction	8,494,657	8,645,643
Support Services:		
Pupil and Instructional Staff	2,133,280	2,003,408
General and School Administrative, Fiscal and Business	1,670,321	1,589,486
Operations and Maintenance	1,494,880	1,413,866
Pupil Transportation	834,966	1,027,320
Central	3,749	41,241
Operation of Non-Instructional Services	896,699	861,301
Extracurricular Activities	423,845	436,846
Payment to Ohio School Facilities Commission	0	760,814
Interest and Fiscal Charges	179,342	233,737
Total Expenses	<u>16,131,739</u>	<u>17,013,662</u>
Change in Net Assets	(646,420)	(1,844,829)
Beginning Net Assets	<u>23,103,219</u>	<u>24,948,048</u>
Ending Net Assets	<u><u>\$22,456,799</u></u>	<u><u>\$23,103,219</u></u>

The District revenues are mainly from two sources. Property taxes levied for general, debt service, special revenue and capital projects purposes and grants and entitlements comprised 75% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 22% of revenue for governmental activities for the District in fiscal year 2007.

Revenue Sources	2007	Percent of Total
General Grants	\$8,184,995	53%
Program Revenues	3,614,398	23%
General Tax Revenues	3,410,932	22%
Other Revenues	274,994	2%
	<u>\$15,485,319</u>	<u>100%</u>



Instruction comprises 53% of governmental program expenses. Support services expenses were 38% of governmental program expenses. All other expenses including interest was 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Total revenues for the District remained relatively consistent from 2006 to 2007. Total expenses decreased from 2006 primarily due to the payment to the Ohio School Facilities Commission (OSFC). The District received state monies for school improvements from the OSFC. The project was completed and below original cost estimates. The District made a payment back to the OSFC for the unused state monies.

## Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006 Restated
Instruction	\$8,494,657	\$8,645,643	\$6,549,360	\$6,521,951
Support Services:				
Pupil and Instructional Staff	2,133,280	2,003,408	1,646,114	1,637,567
General and School Administrative, Fiscal and Business	1,670,321	1,589,486	1,628,389	1,549,999
Operations and Maintenance	1,494,880	1,413,866	1,487,286	1,409,628
Pupil Transportation	834,966	1,027,320	765,228	969,680
Central	3,749	41,241	1,092	35,174
Operation of Non-Instructional Services	896,699	861,301	160,915	169,140
Extracurricular Activities	423,845	436,846	99,615	289,914
Payment to Ohio School Facilities Commission	0	760,814	0	760,814
Interest and Fiscal Charges	179,342	233,737	179,342	233,737
Total Expenses	<u>\$16,131,739</u>	<u>\$17,013,662</u>	<u>\$12,517,341</u>	<u>\$13,577,604</u>

## The District's Funds

The District has one major governmental fund: the General Fund. Assets of the general fund comprised \$5,512,240 (77%) of the total \$7,183,475 governmental funds assets.

**General Fund:** Fund balance at June 30, 2007 was \$739,641 including \$168,577 of unreserved balance. The fund balance increased mainly due to an increase in grant monies (intergovernmental revenue) received.

### 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 2007, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$12,851,840, compared to original budget estimates of \$14,234,248. Of this \$1,382,408 difference, most was due to overestimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance for the General Fund was \$1,893,478.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal 2007, the District had \$24,913,802 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal 2007 balances compared to fiscal 2006:

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

	Governmental Activities	
	2007	2006
Land	\$474,430	\$474,430
Buildings and Improvements	22,277,908	23,036,783
Equipment	2,161,464	2,570,990
Total Net Capital Assets	<u>\$24,913,802</u>	<u>\$26,082,203</u>

The decrease in capital assets is due to the recognition of \$1,171,589 in depreciation expense offset by \$6,600 in equipment additions.

See Note 6 to the Basic Financial Statements for further details on the District's capital assets.

### Debt

At June 30, 2007, the District had \$3,709,577 in bonds payable, \$195,000 due within one year. Table 5 summarizes bonds outstanding at year end.

Table 5  
Outstanding Debt, at Year End

	Governmental Activities 2007	Governmental Activities 2006
General Obligation Bonds:		
State Facilities Construction	\$1,025,000	\$3,690,000
Putman Addition and Junior High Gym	0	224,000
2006 Refunding Bonds:		
Current Interest Bonds	2,514,000	0
Current Appreciation Bonds – Principal Only	85,000	0
Current Appreciation Bonds – Compounding Interest	15,655	0
Deferred Amount on Refunding Bonds	(151,848)	0
Premium on Refunding Bonds	221,770	0
Total Outstanding Debt at Year End	<u>\$3,709,577</u>	<u>\$3,914,000</u>

See Note 7 to the Basic Financial Statements for further details on the District's long-term obligations.

## **For the Future**

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darlene Kassner, Treasurer at Blanchester Local School District, 3580 St. Rt. 28, Blanchester, Ohio 45107. Or E-mail at [rogersd@blanchester.k12.oh.us](mailto:rogersd@blanchester.k12.oh.us).

Blanchester Local School District  
Statement of Net Assets  
June 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,483,025
Restricted Cash and Investments	256,974
Receivables:	
Taxes	3,948,580
Accounts	2,841
Interest	7,113
Intergovernmental	345,534
Deferred Bond Issuance Costs	69,923
Inventory	10,319
Nondepreciable Capital Assets	474,430
Depreciable Capital Assets, Net	<u>24,439,372</u>
 Total Assets	 <u>32,038,111</u>
Liabilities:	
Accounts Payable	112,601
Accrued Wages and Benefits	1,685,850
Accrued Interest Payable	13,932
Unearned Revenue	3,497,152
Long-Term Liabilities:	
Due Within One Year	303,571
Due In More Than One Year	<u>3,968,206</u>
 Total Liabilities	 <u>9,581,312</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	21,204,225
Restricted for:	
Special Revenue	224,505
Debt Service	396,180
Capital Projects	169,280
Set-Aside	256,974
Unrestricted	<u>205,635</u>
 Total Net Assets	 <u>\$22,456,799</u>

See accompanying notes to the Basic Financial Statements.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$6,470,944	\$827,079	\$329,245	\$0	(\$5,314,620)
Special	1,168,362	0	719,344	0	(449,018)
Vocational	385,238	0	65,352	0	(319,886)
Other	470,113	0	4,277	0	(465,836)
Support Services:					
Pupil	629,427	0	67,728	0	(561,699)
Instructional Staff	1,503,853	0	419,438	0	(1,084,415)
General Administration	30,339	0	0	0	(30,339)
School Administration	1,252,707	2,821	33,826	0	(1,216,060)
Fiscal	378,946	0	5,285	0	(373,661)
Business	8,329	0	0	0	(8,329)
Operations and Maintenance	1,494,880	7,594	0	0	(1,487,286)
Pupil Transportation	834,966	0	51,845	17,893	(765,228)
Central	3,749	0	2,657	0	(1,092)
Operation of Non-Instructional Services	896,699	423,265	312,519	0	(160,915)
Extracurricular Activities	423,845	166,525	157,705	0	(99,615)
Interest and Fiscal Charges	179,342	0	0	0	(179,342)
<b>Total Governmental Activities</b>	<b>\$16,131,739</b>	<b>\$1,427,284</b>	<b>\$2,169,221</b>	<b>\$17,893</b>	<b>(12,517,341)</b>
General Revenues:					
Property Taxes Levied for:					
					2,861,928
					58,007
					393,599
					97,398
					8,184,995
					13,778
					115,493
					145,723
<b>Total General Revenues</b>					<b>11,870,921</b>
<b>Change in Net Assets</b>					<b>(646,420)</b>
<b>Net Assets Beginning of Year</b>					<b>23,103,219</b>
<b>Net Assets End of Year</b>					<b>\$22,456,799</b>

See accompanying notes to the Basic Financial Statements.



Blanchester Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in Pooled Cash and Investments	\$1,778,121	\$704,904	\$2,483,025
Restricted Cash and Investments	256,974	0	256,974
<b>Receivables:</b>			
Taxes	3,340,121	608,459	3,948,580
Accounts	897	1,944	2,841
Interest	7,113	0	7,113
Intergovernmental	2,014	343,520	345,534
Interfund	127,000	2,089	129,089
Inventory	0	10,319	10,319
<b>Total Assets</b>	<b>5,512,240</b>	<b>1,671,235</b>	<b>7,183,475</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts Payable	59,389	53,212	112,601
Accrued Wages and Benefits	1,477,495	208,355	1,685,850
Compensated Absences	86,188	0	86,188
Interfund Payable	0	129,089	129,089
Deferred Revenue	3,149,527	884,179	4,033,706
<b>Total Liabilities</b>	<b>4,772,599</b>	<b>1,274,835</b>	<b>6,047,434</b>
<b>Fund Balances:</b>			
Reserved for Encumbrances	123,496	42,624	166,120
Reserved for Inventory	0	10,319	10,319
Reserved for Property Tax Advances	190,594	38,254	228,848
Reserved for Set-Aside	256,974	0	256,974
<b>Unreserved, Undesignated, Reported in:</b>			
General Fund	168,577	0	168,577
Special Revenue Funds	0	(118,626)	(118,626)
Debt Service Funds	0	289,752	289,752
Capital Projects Funds	0	134,077	134,077
<b>Total Fund Balances</b>	<b>739,641</b>	<b>396,400</b>	<b>1,136,041</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$5,512,240</b>	<b>\$1,671,235</b>	<b>\$7,183,475</b>

See accompanying notes to the Basic Financial Statements.

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

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Total Governmental Fund Balance		\$1,136,041
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		24,913,802
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	222,580	
Intergovernmental	<u>313,974</u>	
		536,554
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(13,932)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(476,012)</u>	
		(476,012)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		69,923
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(3,709,577)</u>
Net Assets of Governmental Activities		<u>\$22,456,799</u>

See accompanying notes to the Basic Financial Statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$2,847,407	\$545,894	\$3,393,301
Tuition and Fees	827,069	46,325	873,394
Investment Earnings	115,374	0	115,374
Intergovernmental	8,958,784	1,219,924	10,178,708
Extracurricular Activities	10	122,667	122,677
Charges for Services	0	423,265	423,265
Other Revenues	59,362	108,205	167,567
<b>Total Revenues</b>	<b>12,808,006</b>	<b>2,466,280</b>	<b>15,274,286</b>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	5,371,795	304,338	5,676,133
Special	1,095,147	7,947	1,103,094
Vocational	379,238	6,000	385,238
Other	470,113	0	470,113
<b>Support Services:</b>			
Pupil	543,474	77,339	620,813
Instructional Staff	1,093,922	401,211	1,495,133
General Administration	30,339	0	30,339
School Administration	1,063,887	115,749	1,179,636
Fiscal	363,151	13,822	376,973
Business	8,329	0	8,329
Operations and Maintenance	1,249,076	0	1,249,076
Pupil Transportation	740,945	0	740,945
Central	0	3,749	3,749
Operation of Non-Instructional Services	18,623	837,773	856,396
Extracurricular Activities	241,845	159,755	401,600
Capital Outlay	842	190,892	191,734
<b>Debt Service:</b>			
Principal Retirement	0	290,000	290,000
Interest and Fiscal Charges	0	165,482	165,482
<b>Total Expenditures</b>	<b>12,670,726</b>	<b>2,574,057</b>	<b>15,244,783</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>137,280</b>	<b>(107,777)</b>	<b>29,503</b>
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Capital Assets	959	0	959
Sale of Refunding Bonds	0	2,624,000	2,624,000
Refunding Bonds Issue Costs	0	(74,293)	(74,293)
Payments to Refunding Bond Escrow Agent	0	(2,785,338)	(2,785,338)
Premium on the Sale of Refunding Bonds	0	235,631	235,631
Transfers In	0	20,000	20,000
Transfers (Out)	(20,000)	0	(20,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(19,041)</b>	<b>20,000</b>	<b>959</b>
<b>Net Change in Fund Balance</b>	<b>118,239</b>	<b>(87,777)</b>	<b>30,462</b>
<b>Fund Balance Beginning of Year</b>	<b>621,402</b>	<b>484,177</b>	<b>1,105,579</b>
<b>Fund Balance End of Year</b>	<b>\$739,641</b>	<b>\$396,400</b>	<b>\$1,136,041</b>

See accompanying notes to the Basic Financial Statements.

Blanchester Local School District  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2007

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Net Change in Fund Balance - Total Governmental Funds \$30,462

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

Governmental funds report capital asset additions 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 of the difference between capital  
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	6,600	
Depreciation Expense	<u>(1,171,589)</u>	(1,164,989)

Governmental funds only report the disposal of assets to the  
 extent proceeds are received from the sale. In the statement  
 of activities, a gain or loss is reported for each disposal. The  
 amount of the proceeds must be removed and the gain or loss  
 on the disposal of capital assets must be recognized. This is the  
 amount of the difference between the proceeds and the gain or loss. (3,412)

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

Delinquent Property Taxes	17,632	
Intergovernmental	<u>193,401</u>	211,033

In the statement of activities, certain costs and proceeds associated with  
 long-term debt obligations issued during the year are accrued and  
 amortized over the life of the debt obligation. In governmental funds  
 these costs and proceeds are recognized as financing sources and uses.

Bond Issuance Costs	74,293	
Premium on Bonds Issued	(235,631)	
Deferred Amount on Refunding	<u>161,338</u>	0

Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term  
 liabilities in the statement of net assets. 290,000

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. 1,794

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

Compensated Absences	4,346	
Amortization of Bond Issuance Cost	(4,370)	
Amortization of Bond Premium	13,861	
Amortization of Deferred Charge on Refunding	(9,490)	
Bond Accretion	<u>(15,655)</u>	(11,308)

Change in Net Assets of Governmental Activities (\$646,420)

See accompanying notes to the Basic Financial Statements.

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

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	Private Purpose Trust	Agency
	<u>          </u>	<u>          </u>
Assets:		
Equity in Pooled Cash and Investments	\$253,804	\$30,917
Receivables:		
Interest	<u>          462</u>	<u>          0</u>
Total Assets	<u>          254,266</u>	<u>          \$30,917</u>
Liabilities:		
Accounts Payable	854	1,525
Other Liabilities	<u>          0</u>	<u>          29,392</u>
Total Liabilities	<u>          854</u>	<u>          \$30,917</u>
Net Assets:		
Held in Trust	<u>          253,412</u>	
Total Net Assets	<u>          \$253,412</u>	

See accompanying notes to the Basic Financial Statements.

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

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	<u>Private Purpose Trust</u>
Additions:	
Donations	\$300
Investment Earnings	9,892
	<hr/>
Total Additions	10,192
	<hr/>
Deductions:	
Scholarships	13,773
	<hr/>
Total Deductions	13,773
	<hr/>
Change in Net Assets	(3,581)
	<hr/>
Net Assets Beginning of Year	256,993
	<hr/>
Net Assets End of Year	<u>\$253,412</u>

See accompanying notes to the Basic Financial Statements.

**BLANCHESTER LOCAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2007**

**1. DESCRIPTION OF THE DISTRICT**

The Blanchester Local School District (“District”) was originally organized in 1854 and known as Blanchester Village School. On July 1, 1959 Blanchester Village School, Jefferson Township School and Edenton Local School District became Blanchester Local School District. In 1853 State Laws were enacted to create local boards of education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected, five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This board controls the District's four instructional and support facilities staffed by 109 classified, 103 certified and six administrative employees to provide service to 1,806 students and other community members.

**REPORTING ENTITY**

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

## **MEASUREMENT FOCUS**

### **Government-wide Financial Statements**

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **Fund Financial Statements**

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

Fiduciary funds are reported using the economic resources measurement focus.

## **FUND ACCOUNTING**

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



## **Governmental Funds**

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The 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.

## **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. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's has a private purpose trust fund which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

## **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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

### Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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 year end: property taxes available for advance, grants and interest.

#### Deferred Revenue

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

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

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

#### Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

#### Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

## **EQUITY IN POOLED CASH AND INVESTMENTS**

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Interest revenue credited to the general fund during fiscal year 2007 amounted to \$115,374.

## **INVENTORY**

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

## **CAPITAL ASSETS**

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 five hundred dollars (\$500). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Building Improvements	20-40 years
Equipment	3-15 years

## **COMPENSATED ABSENCES**

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the amount recorded as compensated absences is the amount due at year end. These amounts are recorded in the account “compensated absences

payable” in the fund from which the employees who have accumulated unpaid leave are paid. The entire amount of compensated absences is reported as a fund liability in proprietary funds.

The District’s policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	Per Contract	10-20 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	Not Applicable	Not Applicable
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Not Applicable	Not Applicable
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	215 days	Per Contract	210 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

## **NET ASSETS**

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District’s \$1,046,939 in restricted net assets, none were restricted by enabling legislation.

## **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 financial statements.

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

## **FUND EQUITY**

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, property tax advances and set-aside. The reserve for property tax advances represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

## **ESTIMATES**

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

## **RESTRICTED ASSETS**

Restricted assets in the general fund represent equity in pooled cash and investments set aside to establish a state mandated reserve for textbook and budget stabilization reserves. A corresponding fund balance reserve has also been established.

### **3. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys 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 is 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.

## Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2007, \$263,587 of the District's bank balance of \$364,599 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

## Investments

As of June 30, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Aggregate Credit Risk</u>	<u>Weighed Average Maturity (Years)</u>
Federal Home Loan Bank	\$1,945,093	64%	1.97
Federal Home Loan Mortgage Corporation	219,702	7%	0.59
Federal National Mortgage Association	200,672	7%	1.79
U.S. Treasury Equivalent	<u>672,380</u>	<u>22%</u>	0.00
Total Fair Value	<u>\$3,037,847</u>	<u>100%</u>	
Portfolio Weighted Average Maturity			1.42

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest quality rating issued by nationally recognized statistical rating organizations. The District’s investments in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and U.S. Treasury Equivalent were rated AAA by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service.

Concentration of credit risk – The District’s investment policy allows investments in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and U.S. Treasury Equivalent. The District has invested 100% of its investments in government sponsored enterprise (GSE) securities.

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. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

#### **4. PROPERTY TAXES**

Real property taxes collected in 2007 were levied in April on the assessed values as of January 1, 2006, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most business and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.



Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2007. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2007, was \$190,594 for General Fund, and \$38,254 for Other Governmental Funds, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2007 operations.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$122,732,380
Public Utility Personal	5,826,840
Tangible Personal Property	<u>15,853,814</u>
Total	<u>\$144,413,034</u>

## 5. RECEIVABLES

Receivables at June 30, 2007, consisted of taxes, accounts (rent and student fees), interest, intergovernmental grants and interfund. 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.

## 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$474,430	\$0	\$0	\$474,430
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	30,057,278	0	0	30,057,278
Equipment	7,308,207	6,600	34,123	7,280,684
Totals at Historical Cost	<u>37,839,915</u>	<u>6,600</u>	<u>34,123</u>	<u>37,812,392</u>
Less Accumulated Depreciation:				
Buildings and Improvements	7,020,495	758,875	0	7,779,370
Equipment	4,737,217	412,714	30,711	5,119,220
Total Accumulated Depreciation	<u>11,757,712</u>	<u>1,171,589</u>	<u>30,711</u>	<u>12,898,590</u>
Governmental Activities Capital Assets, Net	<u>\$26,082,203</u>	<u>(\$1,164,989)</u>	<u>\$3,412</u>	<u>\$24,913,802</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$803,403
Special	65,268
Support Services:	
Pupil	8,614
School Administration	83,009
Operations and Maintenance	54,828
Pupil Transportation	95,027
Operation of Non-Instructional Services	39,195
Extracurricular Activities	22,245
Total Depreciation Expense	<u>\$1,171,589</u>

## 7. LONG-TERM LIABILITIES

	Interest Rate	Maturity Dates	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
2000 School Facilities Construction	5.67%	12/1/22	\$3,690,000	\$0	\$2,665,000	\$1,025,000	\$110,000
1989 Putnam Addition and Junior High Gym	7.75%	12/1/10	224,000	0	224,000	0	0
2006 Refunding Bonds:							
Current Interest Bonds	4.00%-4.25%	12/1/22	0	2,539,000	25,000	2,514,000	85,000
Current Appreciation Bonds Principal Only		12/1/15	0	85,000	0	85,000	0
Current Appreciation Bonds Compounding Interest	20.12%-22.01%	12/1/15	0	15,655	0	15,655	0
Deferred Amount on Refunding Bonds		12/1/22	0	(161,338)	(9,490)	(151,848)	0
Premium on Refunding Bonds		12/1/22	0	235,631	13,861	221,770	0
Total Bonds			3,914,000	2,713,948	2,918,371	3,709,577	195,000
Compensated Absences			590,251	97,283	125,334	562,200	108,571
Total Governmental Activities			<u>\$4,504,251</u>	<u>\$2,811,231</u>	<u>\$3,043,705</u>	<u>\$4,271,777</u>	<u>\$303,571</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2008	\$195,000	\$162,760	\$0	\$0
2009	200,000	153,762	0	0
2010	220,000	144,046	0	0
2011	214,000	133,789	0	0
2012	200,000	123,706	0	0
2013-2017	730,000	457,763	85,000	415,000
2018-2022	1,505,000	223,796	0	0
2023-2027	275,000	5,844	0	0
Total	<u>\$3,539,000</u>	<u>\$1,405,466</u>	<u>\$85,000</u>	<u>\$415,000</u>

## **8. ADVANCED REFUNDING**

On July 13, 2006, the District issued \$2,859,631 in General Obligation bonds with an average interest rate of 4.07% of which \$2,624,000 was used to partially advance refund \$2,445,000 of outstanding 2000 School Facilities Construction Bonds with an average interest rate of 5.67% and \$179,000 of outstanding Putnam Addition and Junior High Gym Improvement Bonds with an average interest rate of 7.75%. The net proceeds of \$2,833,390 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the 2000 School Facilities Construction Bonds and Putnam Addition and Junior High Gym Improvement Bonds. As a result, \$2,624,000 of the 2000 School Facilities Construction Bonds and Putnam Addition and Junior High Gym Improvement Bonds are considered to be defeased and the related liability for those bonds has been removed from the Statement of Net Assets.

The District advance refunded a portion of the 2000 School Facilities Construction Bonds and Putnam Addition and Junior High Gym Improvement Bonds to reduce its total debt service payments by \$150,361 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$112,622.

## **9. DEFINED BENEFIT PENSION PLANS**

### **SCHOOL EMPLOYEES RETIREMENT SYSTEM**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free 800-878-5853. It is also posted on the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$315,288, \$285,912, and \$260,400, respectively; 48% has been contributed for fiscal year 2007 and 100% for fiscal year 2006 and 2005. \$162,528 represents the unpaid contribution for fiscal year 2007.

## **STATE TEACHERS RETIREMENT SYSTEM**

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2007, 2006, and 2005 were \$850,844, \$742,716, and \$784,308, respectively; 82% has been contributed for fiscal year 2007 and 100% for fiscal year 2006 and 2005. \$149,732 represents the unpaid contribution for fiscal year 2007.

## **10. POST EMPLOYMENT BENEFITS**

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund for which payments for health care benefits are paid. For the District, this amount equaled \$60,775 during the 2007 fiscal year. At June 30, 2006 (latest information available), the balance in the fund was \$3.5 billion. As of June 30, 2006, eligible benefit recipients totaled 119,184. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

For the fiscal year, employer contributions to fund health care benefits were 3.42% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$77,020 during the 2007 fiscal year. The number of participants currently receiving health care benefits is approximately 59,492. For the fiscal year ended June 30, 2006 (latest information available), net health care costs paid by SERS were \$158,751,207. At June 30, 2006 SERS had net assets available for payment of health care benefits of \$295.6 million.

## **11. CONTINGENT LIABILITIES**

### **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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2007.

## **LITIGATION**

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

## **12. JOINTLY GOVERNED ORGANIZATIONS**

The Miami Valley Educational Computer Association (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Tom Faulkner, Director, 330 East Enon Road, Yellow Springs, Ohio 45387.

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

### 13. RELATED ORGANIZATION

Public Library - The Blanchester Public Library is a district political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Blanchester School District Board of Education. 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. Although the District does serve as the taxing authority and may issue tax-related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Blanchester Public Library, Mrs. Pamela Smith, Clerk/Treasurer, at 110 North Broadway, Blanchester, Ohio 45107.

### 14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers. Settled claims have not exceeded commercial coverage in any of the past four years.

The District provides health insurance to employees through a private carrier. They no longer provide benefits through a self insurance program.

### 15. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Summer Intervention	\$5,124
Vocational Education Enhancement	626
Alternative Schools	32,871
Special Education	106,600
Title I	26,739
Title V	9,080
Improving Teacher Quality	35,342
Food Service	45,349

The deficit fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.



## 16. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2007, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2006	\$34,346	\$ 0	\$117,965
Current Year Set-aside Requirement	272,257	272,257	0
Qualified Disbursements	(167,594)	(103,598)	0
Current Year Offsets	<u>0</u>	<u>(19,318,823)</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2007	<u>\$139,009</u>	<u>(\$19,150,164)</u>	<u>\$117,965</u>
 Restricted Cash as of June 30, 2007	 <u>\$256,974</u>		

Offset credits for capital activity during the year exceeded the amount required for the set-aside, resulting in offset credits of \$19,150,164 available for carryover to offset capital reserve requirements of future years.

## 17. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2007, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$127,000	\$0	\$0	\$20,000
Other Governmental Funds	<u>2,089</u>	<u>129,089</u>	<u>20,000</u>	<u>0</u>
Total All Funds	<u>\$129,089</u>	<u>\$129,089</u>	<u>\$20,000</u>	<u>\$20,000</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$3,181,721	\$2,872,717	\$2,872,717	\$0
Tuition and Fees	915,975	827,017	827,017	0
Investment Earnings	137,852	124,464	124,464	0
Intergovernmental	9,926,341	8,962,310	8,962,310	0
Extracurricular Activities	11	10	10	0
Other Revenues	72,348	65,322	65,322	0
Total Revenues	14,234,248	12,851,840	12,851,840	0
Expenditures:				
Current:				
Instruction:				
Regular	5,715,284	5,329,175	5,329,175	0
Special	1,189,969	1,109,578	1,109,578	0
Vocational	405,743	378,332	378,332	0
Other	497,360	463,760	463,760	0
Support Services:				
Pupil	591,764	551,786	551,786	0
Instructional Staff	1,177,435	1,097,891	1,097,891	0
General Administration	34,339	32,019	32,019	0
School Administration	1,146,793	1,069,319	1,069,319	0
Fiscal	391,456	365,010	365,010	0
Business	9,291	8,663	8,663	0
Operations and Maintenance	1,357,176	1,265,489	1,265,489	0
Pupil Transportation	851,073	793,577	793,577	0
Central	39,681	37,000	37,000	0
Operation of Non-Instructional Services	20,989	19,571	19,571	0
Extracurricular Activities	258,771	241,289	241,289	0
Capital Outlay	903	842	842	0
Total Expenditures	13,688,027	12,763,301	12,763,301	0
Excess of Revenues Over (Under) Expenditures	546,221	88,539	88,539	0
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	1,062	959	959	0
Advances (Out)	(7,648)	(7,131)	(7,131)	0
Transfers (Out)	(21,449)	(20,000)	(20,000)	0
Total Other Financing Sources (Uses)	(28,035)	(26,172)	(26,172)	0
Net Change in Fund Balance	518,186	62,367	62,367	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,831,111	1,831,111	1,831,111	0
Fund Balance End of Year	\$2,349,297	\$1,893,478	\$1,893,478	\$0

See accompanying notes to the required supplementary information.

**BLANCHESTER LOCAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2007**

**1. BUDGETARY PROCESS**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2007.

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

Any budgetary modifications at the fund and function level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

### Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007.

### Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

### Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

### Lapsing of Appropriations

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

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

#### Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$118,239
Net Adjustment for Revenue Accruals	43,834
Net Adjustment for Expenditure Accruals	49,044
Advances Out	(7,131)
Encumbrances	<u>(141,619)</u>
Budget Basis	<u>\$ 62,367</u>

**BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Food Distribution Program	None	10.550	\$0	\$141,204	\$0	\$141,204
Nutrition Cluster:						
National School Breakfast Program	05-PU-2006 05-PU-2007	10.553	12,689 30,088	---- ----	12,689 30,088	---- ----
National School Lunch	LLP4-2006 LLP4-2007	10.555	53,232 139,421	---- ----	53,232 139,421	---- ----
<b>Total U.S. Department of Agriculture</b>			<b>235,430</b>	<b>141,204</b>	<b>235,430</b>	<b>141,204</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Education Consolidation and Improvement Act						
Title I - FY 06	C1-S1-06	84.010	-19,038	----	29,033	----
Title I - FY 07	C1-S1-07		213,275	----	190,734	----
<i>Total Title I</i>			194,237	0	219,767	0
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B - FY06	6BSF-2006	84.027	11,052	----	55,016	----
IDEA Part B - FY07	6BSF-2007		336,424	----	337,992	----
Educational Handicapped Preschool						
Preschool Subsidy - FY 06	PG-S1-2006	84.173	-1,336	----	-----	----
Preschool Subsidy - FY 07	PG-S1-2007		7,948	----	7,948	----
<i>Total Special Education Cluster</i>			354,088	0	400,956	0
Drug Free Schools						
Student Drug Testing Grant	N/A	84.184	38,342	----	36,352	----
Drug Free Education - Subsidy - FY 06	DR-S1-06	84.186	0	----	-49	----
Drug Free Education - Subsidy - FY 07	DR-S1-07		5,537	----	4,302	----
<i>Total Drug Free School Grants</i>			43,879	0	40,605	0
Innovative Educational Program Strategies						
Innovative Ed - FY 06	C2-S1-06	84.298	0	----	-69	----
Innovative Ed - FY 07	C2-S1-07		2,380	----	5,885	----
<i>Total Innovative Ed</i>			2,380	0	5,816	0
Additional Programs:						
Educational Technology - FY 06	TJ-S1-06	84.318	-----	----	1,271	----
Educational Technology - FY 07	TJ-S1-07		811	----	360	----
Improving Teacher Quality - FY 06	TR-S1-06	84.367	38,179	----	6,309	----
Improving Teacher Quality - FY 07	TR-S1-07		64,126	----	84,689	----
<i>Total Additional Programs</i>			103,116	0	92,629	0
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education Basic Grants to States						
Career Educator	N/A	84.048	4,810	----	4,810	----
<b>Total Department of Education</b>			<b>702,510</b>	<b>0</b>	<b>764,583</b>	<b>0</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$937,940</b>	<b>\$141,204</b>	<b>\$1,000,013</b>	<b>\$141,204</b>

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

**BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received. At June 30, 2007, the District had no significant food commodities in inventory.





# Mary Taylor, CPA

## Auditor of State

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

Blanchester Local School District  
Clinton County  
951 Cherry Street  
Blanchester, Ohio 45107

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Blanchester Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiency described above, we believe finding number 2007-001 is also material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated April 15, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 15, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

April 15, 2008



# Mary Taylor, CPA

## Auditor of State

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

Blanchester Local School District  
Clinton County  
951 Cherry Street  
Blanchester, Ohio 45107

#### Compliance

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

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

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

#### Internal Control Over Compliance

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

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

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

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

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



**Mary Taylor, CPA**  
Auditor of State

April 15, 2008

**BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<b>IDEA Part B, CFDA # 84.027 and Educational Handicapped Preschool 84.173</b>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2007-001**

**Material Noncompliance**

**Ohio Rev. Code, Section 149.351(A)**, provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Ohio Revised Code. During the audit period, the Athletic Director did not maintain ticket tally reports for the football games. Alternative procedures were used to audit the football receipts.

The District should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

**Officials' Response:**

We did not receive a response from Official's to this finding.

<b>FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**BLANCHESTER LOCAL SCHOOL DISTRICT  
CLINTON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ticket tally sheets were not properly maintained which resulted in a Finding for Recovery issued against the athletic director.	No	The Finding for Recovery was repaid during the last audit. Reissued in the letter to management.
2006-002	Inadequate controls over the extracurricular activities.	No	Reissued in the letter to management.







**Mary Taylor, CPA**  
Auditor of State

**BLANCHESTER LOCAL SCHOOL DISTRICT**

**CLINTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 13, 2008**