

MADEIRA CITY SCHOOL DISTRICT

Basic Financial Statements

June 30, 2007



Mary Taylor, CPA
Auditor of State

Board of Education
Madeira City School District
7465 Loannes Drive
Madeira, Ohio 45243

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 11, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madeira City School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madeira City School District, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements. 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.

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

The extracurricular activities revenues of the aggregate remaining fund information have not been audited as part of our audit of the District's basic financial statements, due to the destruction of records relating to athletic programs. Extracurricular activities revenues are included in the District's basic financial statements other governmental funds and represent 16 percent, of the District's other governmental funds revenues.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had extracurricular activities revenues of the other governmental funds been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective changes in financial position 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 December 10, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Plattenburg & Associates, Inc.

Cincinnati, Ohio
December 10, 2007

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

The discussion and analysis of Madeira City 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 the 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 \$730,026.
- General revenues accounted for \$16,772,271 in revenue or 88% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,317,468 or 12% of total revenues of \$19,089,739.
- The District had \$19,819,765 in expenses related to governmental activities; \$2,317,468 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$16,772,271 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 *Statements 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 and Debt Service Funds are 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 District presents:

- 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 fund is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major fund. 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.

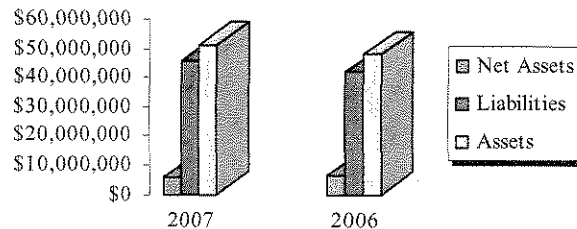
Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* 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.

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 Restated |
|--------------------------|--------------------|--------------------|
| Assets | | |
| Current Assets | \$20,169,347 | \$17,094,152 |
| Capital Assets | 31,138,093 | 31,175,797 |
| Total Assets | 51,307,440 | 48,269,949 |
| Liabilities | | |
| Long-Term Liabilities | 32,853,368 | 32,858,326 |
| Other Liabilities | 12,842,869 | 9,070,394 |
| Total Liabilities | 45,696,237 | 41,928,720 |
| Net Assets | | |
| Invested in Capital | | |
| Assets Net of Debt | (1,090,538) | 270,051 |
| Restricted | 3,185,194 | 2,420,537 |
| Unrestricted | 3,516,547 | 3,650,641 |
| Total Net Assets | \$5,611,203 | \$6,341,229 |



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 \$5,611,203.

At year-end, capital assets represented 61% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2007, was (\$1,090,538). These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$3,185,194, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current assets and other liabilities increased due to the passage of an August 2006 levy, which increased taxes receivable (current asset) and deferred revenue (other liability).

Table 2 shows the change in net assets for fiscal years 2007 and 2006.

Table 2
Changes in Net Assets

| | Governmental Activities | |
|---|---------------------------|---------------------------|
| | 2007 | 2006 |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services | \$1,133,059 | \$1,053,915 |
| Operating Grants | 921,837 | 874,711 |
| Capital Grants | 262,572 | 19,380 |
| General Revenue: | | |
| Property Taxes | 11,673,317 | 10,317,732 |
| Grants and Entitlements | 4,414,562 | 4,146,364 |
| Other | 684,392 | 1,149,299 |
| Total Revenues | <u>19,089,739</u> | <u>17,561,401</u> |
| Program Expenses: | | |
| Instruction | 10,921,934 | 8,967,674 |
| Support Services: | | |
| Pupil and Instructional Staff | 1,451,240 | 1,744,698 |
| General and School Administrative, Fiscal and Business | 1,501,111 | 1,563,270 |
| Operations and Maintenance | 1,549,549 | 1,277,748 |
| Pupil Transportation | 728,716 | 859,899 |
| Central | 528,675 | 302,689 |
| Operation of Non-Instructional Services | 1,034,315 | 953,310 |
| Extracurricular Activities | 572,300 | 576,640 |
| Interest and Fiscal Charges | 1,531,925 | 1,555,924 |
| Total Expenses | <u>19,819,765</u> | <u>17,801,852</u> |
| Change in Net Assets | (730,026) | (240,451) |
| Beginning Net Assets, Restated | <u>6,341,229</u> | <u>6,581,680</u> |
| Ending Net Assets | <u><u>\$5,611,203</u></u> | <u><u>\$6,341,229</u></u> |

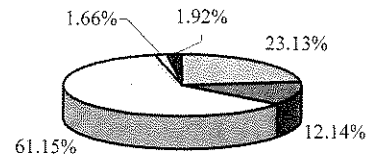
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general and debt service purposes, and grants and entitlements comprised 84% 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 do not receive additional property tax revenue from increases in appraisal values and must regularly return to the voters to maintain a constant level of service. Property taxes made up 61% of revenue for governmental activities for the District in fiscal year 2007.

| Revenue Sources | 2007 | Percent of Total |
|----------------------|---------------------|---------------------|
| General Grants | \$4,414,562 | 23.13% |
| Program Revenues | 2,317,468 | 12.14% |
| General Tax Revenues | 11,673,317 | 61.15% |
| Investment Earnings | 317,164 | 1.66% |
| Other Revenues | 367,228 | 1.92% |
| | <u>\$19,089,739</u> | <u>100.00%</u> |



Instruction comprises 55% of governmental program expenses. Support services expenses were 29% of governmental program expenses. All other expenses, including interest expense were 16%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The District had an increase in taxes revenue mainly due to the passage of an August 2006 levy. Instruction expenditures increased due to the completion of various building projects, since the new buildings are subject to depreciation.

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 |
| Instruction | \$10,921,934 | \$8,967,674 | (\$10,361,762) | (\$8,417,610) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 1,451,240 | 1,744,698 | (1,273,731) | (1,611,087) |
| General and School Administrative, Fiscal and Business | 1,501,111 | 1,563,270 | (1,490,181) | (1,548,351) |
| Operations and Maintenance | 1,549,549 | 1,277,748 | (1,549,549) | (1,277,748) |
| Pupil Transportation | 728,716 | 859,899 | (694,654) | (821,540) |
| Central | 528,675 | 302,689 | (513,374) | (288,613) |
| Operation of Non-Instructional Services | 1,034,315 | 953,310 | (146,622) | (33,607) |
| Extracurricular Activities | 572,300 | 576,640 | 59,501 | (299,366) |
| Interest and Fiscal Charges | 1,531,925 | 1,555,924 | (1,531,925) | (1,555,924) |
| Total Expenses | \$19,819,765 | \$17,801,852 | (\$17,502,297) | (\$15,853,846) |

The District's Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the general fund comprised \$14,845,001 (74%) and the debt service fund comprised \$3,486,130 (17%) of the total \$20,169,347 governmental funds assets.

General Fund: Fund balance at June 30, 2007 was \$3,796,223 a decrease in fund balance of \$116,890 from 2006. The fund balance remained relatively consistent from 2006 to 2007.

Debt Service Fund: Fund balance at June 30, 2007 was \$2,115,243 including \$1,280,243 of unreserved balance. The primary reasons for the increase in fund balance was an increase in tax and intergovernmental revenues in 2007 compared to 2006.

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, the original budget basis revenue was \$14,464,877, compared to final budget estimates of \$14,496,066. The difference between the original budget basis and final budget was \$31,189, which was mostly due to increases in taxes and intergovernmental revenues.

The District's ending unobligated cash balance was \$2,451,808.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$31,138,093 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 Restated |
| Land | \$963,381 | \$963,381 |
| Construction in Progress | 0 | 26,566,875 |
| Buildings and Improvements | 29,295,357 | 3,086,484 |
| Equipment | 879,355 | 559,057 |
| Total Net Capital Assets | <u>\$31,138,093</u> | <u>\$31,175,797</u> |

See the notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2007, the District had \$31,869,684 in bonds and notes outstanding, \$1,025,626 due within one year. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt, at Year End

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | 2007 | 2006 |
| General Obligation Bonds & Note: | \$3,785,000 | \$4,140,000 |
| 2003 Property Purchase Note | 102,918 | 151,932 |
| 2005 School Improvement Bonds: | | |
| Current Interest | 2,710,000 | 27,630,000 |
| Capital Appreciation | 477,141 | 416,939 |
| 2006 School Improvement Refunding Bonds: | | |
| Current Interest | 22,555,000 | 0 |
| Capital Appreciation | 2,122,468 | 0 |
| Premium on Refunding Bonds | 1,677,519 | 0 |
| Deferred Amount on Refunding Bonds | (1,560,362) | 0 |
| Total Bonds and Notes | <u>\$31,869,684</u> | <u>\$32,338,871</u> |

See the notes to the basic financial statements for further details on the District's long-term obligations.

For the Future

A challenge facing the District is the future of state funds. On December 11, 2002, the Ohio Supreme Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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.

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 Susan Crabill, Treasurer at Madeira City School District, 7465 Loannes Drive, Cincinnati, Ohio 45243. Or E-mail at scrabill@madeiracityschools.org.

Madeira City School District
Statement of Net Assets
June 30, 2007

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$4,680,943 |
| Restricted Cash and Investments | 572,939 |
| Receivables: | |
| Taxes | 14,713,969 |
| Accounts | 577 |
| Intergovernmental | 200,919 |
| Nondepreciable Capital Assets | 963,381 |
| Depreciable Capital Assets, Net | <u>30,174,712</u> |
| Total Assets | <u>51,307,440</u> |
| Liabilities: | |
| Accounts Payable | 18,302 |
| Accrued Wages and Benefits | 1,836,291 |
| Retainage Payable | 561,490 |
| Accrued Interest Payable | 132,200 |
| Deferred Revenue | 10,294,586 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,267,646 |
| Due In More Than One Year | <u>31,585,722</u> |
| Total Liabilities | <u>45,696,237</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | (1,090,538) |
| Restricted for: | |
| Special Revenue | 198,779 |
| Debt Service | 2,171,130 |
| Capital Projects | 796,813 |
| Set-Aside | 18,472 |
| Unrestricted | <u>3,516,547</u> |
| Total Net Assets | <u>\$5,611,203</u> |

See accompanying notes to the basic financial statements.

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

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|-----------------------------------|---------------------------------------|-------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$8,891,299 | \$4,795 | \$32,681 | \$0 | (\$8,853,823) |
| Special | 1,955,186 | 0 | 483,706 | 0 | (1,471,480) |
| Vocational | 3,630 | 0 | 5,010 | 0 | 1,380 |
| Other | 71,819 | 33,980 | 0 | 0 | (37,839) |
| Support Services: | | | | | |
| Pupil | 1,003,054 | 125,257 | 3,569 | 0 | (874,228) |
| Instructional Staff | 448,186 | 0 | 48,683 | 0 | (399,503) |
| General Administration | 42,215 | 0 | 0 | 0 | (42,215) |
| School Administration | 970,510 | 10,930 | 0 | 0 | (959,580) |
| Fiscal | 395,862 | 0 | 0 | 0 | (395,862) |
| Business | 92,524 | 0 | 0 | 0 | (92,524) |
| Operations and Maintenance | 1,549,549 | 0 | 0 | 0 | (1,549,549) |
| Pupil Transportation | 728,716 | 0 | 21,490 | 12,572 | (694,654) |
| Central | 528,675 | 0 | 15,301 | 0 | (513,374) |
| Operation of Non-Instructional Services | 1,034,315 | 576,296 | 311,397 | 0 | (146,622) |
| Extracurricular Activities | 572,300 | 381,801 | 0 | 250,000 | 59,501 |
| Interest and Fiscal Charges | 1,531,925 | 0 | 0 | 0 | (1,531,925) |
| Total Governmental Activities | \$19,819,765 | \$1,133,059 | \$921,837 | \$262,572 | (17,502,297) |

General Revenues:

Property Taxes Levied for:

| | |
|---|-----------|
| General Purposes | 9,673,199 |
| Debt Service Purposes | 2,000,118 |
| Grants and Entitlements not Restricted to Specific Programs | 4,414,562 |
| Unrestricted Contributions | 1,400 |
| Investment Earnings | 317,164 |
| Other Revenues | 365,828 |

Total General Revenues 16,772,271

Change in Net Assets (730,026)

Net Assets Beginning of Year, Restated 6,341,229

Net Assets End of Year \$5,611,203

See accompanying notes to the basic financial statements.

Madeira City School District
Balance Sheet
Governmental Funds
June 30, 2007

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | \$2,317,306 | \$1,280,135 | \$1,083,502 | \$4,680,943 |
| Restricted Cash and Investments | 18,472 | 0 | 554,467 | 572,939 |
| Receivables: | | | | |
| Taxes | 12,508,082 | 2,205,887 | 0 | 14,713,969 |
| Accounts | 577 | 0 | 0 | 577 |
| Intergovernmental | 564 | 108 | 200,247 | 200,919 |
| Total Assets | 14,845,001 | 3,486,130 | 1,838,216 | 20,169,347 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts Payable | 10,303 | 0 | 7,999 | 18,302 |
| Accrued Wages and Benefits | 1,692,816 | 0 | 143,475 | 1,836,291 |
| Compensated Absences | 122,577 | 0 | 0 | 122,577 |
| Retainage Payable | 0 | 0 | 561,490 | 561,490 |
| Deferred Revenue | 9,223,082 | 1,370,887 | 200,000 | 10,793,969 |
| Total Liabilities | 11,048,778 | 1,370,887 | 912,964 | 13,332,629 |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 66,277 | 0 | 641,223 | 707,500 |
| Reserved for Property Tax Advances | 3,285,000 | 835,000 | 0 | 4,120,000 |
| Reserved for Set-Aside | 18,472 | 0 | 0 | 18,472 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 426,474 | 0 | 0 | 426,474 |
| Special Revenue Funds | 0 | 0 | 252,604 | 252,604 |
| Debt Service Funds | 0 | 1,280,243 | 0 | 1,280,243 |
| Capital Projects Funds | 0 | 0 | 31,425 | 31,425 |
| Total Fund Balances | 3,796,223 | 2,115,243 | 925,252 | 6,836,718 |
| Total Liabilities and Fund Balances | \$14,845,001 | \$3,486,130 | \$1,838,216 | \$20,169,347 |

See accompanying notes to the basic financial statements.

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

| | | |
|--|------------------|---------------------|
| Total Governmental Fund Balance | | \$6,836,718 |
| 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. | | 31,138,093 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. | | |
| Delinquent Property Taxes | 299,383 | |
| Intergovernmental | <u>200,000</u> | |
| | | 499,383 |
| 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. | | (132,200) |
| 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>(502,160)</u> | |
| | | (502,160) |
| Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds. | | <u>(32,228,631)</u> |
| Net Assets of Governmental Activities | | <u>\$5,611,203</u> |

See accompanying notes to the basic financial statements.

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

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$9,673,200 | \$2,000,118 | \$0 | \$11,673,318 |
| Tuition and Fees | 38,775 | 0 | 101,251 | 140,026 |
| Investment Earnings | 181,551 | 56,186 | 7,957 | 245,694 |
| Intergovernmental | 4,407,067 | 250,028 | 839,486 | 5,496,581 |
| Extracurricular Activities | 76,883 | 0 | 323,924 | 400,807 |
| Charges for Services | 0 | 0 | 576,296 | 576,296 |
| Other Revenues | 221,416 | 22,858 | 138,884 | 383,158 |
| Total Revenues | 14,598,892 | 2,329,190 | 1,987,798 | 18,915,880 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,661,454 | 0 | 27,234 | 6,688,688 |
| Special | 1,555,420 | 0 | 370,553 | 1,925,973 |
| Vocational | 0 | 0 | 3,630 | 3,630 |
| Other | 36,559 | 0 | 0 | 36,559 |
| Support Services: | | | | |
| Pupil | 916,902 | 0 | 128,720 | 1,045,622 |
| Instructional Staff | 289,632 | 0 | 138,870 | 428,502 |
| General Administration | 42,215 | 0 | 0 | 42,215 |
| School Administration | 962,436 | 0 | 0 | 962,436 |
| Fiscal | 371,620 | 25,245 | 0 | 396,865 |
| Business | 49,855 | 0 | 0 | 49,855 |
| Operations and Maintenance | 1,526,127 | 0 | 2,870 | 1,528,997 |
| Pupil Transportation | 728,645 | 0 | 0 | 728,645 |
| Central | 390,290 | 0 | 14,099 | 404,389 |
| Operation of Non-Instructional Services | 47,066 | 0 | 974,604 | 1,021,670 |
| Extracurricular Activities | 339,948 | 0 | 226,086 | 566,034 |
| Capital Outlay | 358,947 | 0 | 2,059,997 | 2,418,944 |
| Debt Service: | | | | |
| Principal Retirement | 49,014 | 660,000 | 0 | 709,014 |
| Interest and Fiscal Charges | 4,999 | 1,285,108 | 0 | 1,290,107 |
| Total Expenditures | 14,331,129 | 1,970,353 | 3,946,663 | 20,248,145 |
| Excess of Revenues Over (Under) Expenditures | 267,763 | 358,837 | (1,958,865) | (1,332,265) |
| Other Financing Sources (Uses): | | | | |
| Issuance of Capital Leases | 358,947 | 0 | 0 | 358,947 |
| Sale of Refunding Bonds | 0 | 24,615,000 | 0 | 24,615,000 |
| Refunding Bond Issuance Costs | 0 | (121,844) | 0 | (121,844) |
| Payments to Refunded Bond Escrow Agent | 0 | (26,237,776) | 0 | (26,237,776) |
| Premium on the Sale of Refunding Bonds | 0 | 1,744,620 | 0 | 1,744,620 |
| Transfers In | 0 | 0 | 743,600 | 743,600 |
| Transfers (Out) | (743,600) | 0 | 0 | (743,600) |
| Total Other Financing Sources (Uses) | (384,653) | 0 | 743,600 | 358,947 |
| Net Change in Fund Balance | (116,890) | 358,837 | (1,215,265) | (973,318) |
| Fund Balance Beginning of Year | 3,913,113 | 1,756,406 | 2,140,517 | 7,810,036 |
| Fund Balance End of Year | \$3,796,223 | \$2,115,243 | \$925,252 | \$6,836,718 |

See accompanying notes to the basic financial statements.

Madeira City 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

Net Change in Fund Balance - Total Governmental Funds (S973,318)

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 | 2,330,855 | |
| Depreciation Expense | <u>(932,934)</u> | 1,397,921 |

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. (1,435,625)

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

| | | |
|-------------------|----------------|---------|
| Intergovernmental | <u>173,859</u> | 173,859 |
|-------------------|----------------|---------|

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.

| | | |
|------------------------------|------------------|-----------|
| Premium on Bonds Issued | (1,744,620) | |
| Deferred Amount on Refunding | <u>1,622,776</u> | (121,844) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 709,014

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. (1,991)

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 | (1,112) | |
| Amortization of Bond Premium | 67,101 | |
| Amortization of Deferred Charge on Refunding | (62,414) | |
| Bond Accretion | <u>(122,670)</u> | (119,095) |

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (358,947)

Change in Net Assets of Governmental Activities (\$730,026)

See accompanying notes to the basic financial statements.

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

| | Private Purpose Trust | Agency |
|---------------------------------------|--------------------------|-----------------|
| Assets: | | |
| Equity in Pooled Cash and Investments | \$0 | \$39,489 |
| Total Assets | <u>0</u> | <u>\$39,489</u> |
| Liabilities: | | |
| Accounts Payable | 0 | 1,023 |
| Other Liabilities | <u>0</u> | <u>38,466</u> |
| Total Liabilities | <u>0</u> | <u>\$39,489</u> |
| Net Assets: | | |
| Held in Trust | <u>0</u> | |
| Total Net Assets | <u>\$0</u> | |

See accompanying notes to the basic financial statements.

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

| | Private Purpose Trust |
|------------------------------|--------------------------|
| Additions: | |
| Donations | \$0 |
| Total Additions | 0 |
| Deductions: | |
| Scholarships | 1,000 |
| Total Deductions | 1,000 |
| Change in Net Assets | (1,000) |
| Net Assets Beginning of Year | 1,000 |
| Net Assets End of Year | \$0 |

See accompanying notes to the basic financial statements.

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

1. DESCRIPTION OF THE DISTRICT

The District was chartered by the Ohio State Legislature. In 1949 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 instructional and support facilities staffed by 51 non-certificated personnel and 110 certificated full time teaching and 7 administrative personnel to provide services to students and other community members.

The District is the 2nd smallest in Hamilton County in terms of enrollment. It currently operates 1 elementary school (grades K-4), 1 middle school (grades 5-8), 1 senior high school (grades 9-12).

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. The District contracts with outside organizations for pupil transportation and food service.

The following activities are included within the reporting entity:

Parochial Schools

Within the School District boundaries, St. Gertrude Elementary School is operated as a private school. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activity of this State money by the School District is reflected in a special revenue fund for financial reporting purposes.

The School District is associated with five organizations, of which four are defined as jointly governed organizations and the fifth is a group insurance consortium. These organizations include the Unified Purchasing Cooperative of Ohio River Valley, Great Oaks Joint Vocational School, Hamilton/Clermont Cooperative Association/Computer Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Greater Cincinnati Insurance Consortium.

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

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 between direct expenses and program revenues 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 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.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

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 School 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 School District has a private purpose trust 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. 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.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$181,551, \$56,186 for debt service fund and \$7,957 for other governmental funds.

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 one thousand dollars (\$1,000). 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 and construction in progress. 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> |
|----------------------------|------------------------|
| Buildings and Improvements | 20 years |
| Equipment | 5 - 20 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 vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences are recognized when due. The related liabilities are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

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 | 15-20 days for each service year depending on length of service. | 10-20 days for each service year depending on length of service. |
| Maximum Accumulation | Not Applicable | 15-20 days | 10-20 days |
| Vested | Not Applicable | As Earned | As Earned |
| Termination Entitlement | Not Applicable | Paid upon Termination | Paid upon Termination |
| Sick Leave | | | |
| 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) |
| <u>Sick Leave</u> | <u>Certified</u> | <u>Administrators</u> | <u>Non-Certificated</u> |
| Maximum Accumulation | 220 | 220 | 220 |
| 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 \$3,185,194 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 fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

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, property tax advances and textbook set-aside reserve. The reserve for property taxes 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 and investments set-aside to establish a textbook reserve. Restricted assets in the other governmental fund represent cash and investments for retainage held for vendors.

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 are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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, \$3,955,345 of the District's bank balance of \$4,055,345 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 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>Weighed Average Maturity (Years)</u> |
|-------------------------------------|--------------------|---|
| Freddie Mac | \$54,822 | 0.27 |
| Money Market Fund | <u>1,064,604</u> | <u>0.00</u> |
| Total Fair Value | <u>\$1,119,426</u> | |
| Portfolio Weighted Average Maturity | | 0.01 |

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 credit quality rating issued by nationally recognized statistical rating organizations. The District’s investments in Freddie Mac and Money Market Funds were rated AAA by Standard & 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 Agencies or Instrumentalities. The District has invested 5% in Freddie Mac and 95% in Money Market Funds.

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 ever 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.

Real property taxes are payable annually or semi-annually. In 2007, 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 receivables 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 \$3,285,000 for the General Fund and \$835,000 for the Debt Service Fund, 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 | \$288,876,010 |
| Public Utility Personal | 4,329,470 |
| Tangible Personal Property | <u>2,548,399</u> |
| Total | <u>\$295,753,879</u> |

5. RECEIVABLES

Receivables at June 30, 2007, consisted of taxes, accounts and intergovernmental grants. 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:

| | <u>Restated Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|---|---------------------|-----------------------|---------------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$963,381 | \$0 | \$0 | \$963,381 |
| Construction in Progress | <u>26,566,875</u> | <u>1,840,420</u> | <u>(28,407,295)</u> | <u>0</u> |
| Total Capital Assets, not being depreciated | 27,530,256 | 1,840,420 | (28,407,295) | 963,381 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 6,701,138 | 28,407,295 | (2,893,121) | 32,215,312 |
| Equipment | <u>1,975,280</u> | <u>490,435</u> | <u>0</u> | <u>2,465,715</u> |
| <i>Total Capital Assets, being depreciated:</i> | <u>8,676,418</u> | <u>28,897,730</u> | <u>(2,893,121)</u> | <u>34,681,027</u> |
| Totals at Historical Cost | <u>36,206,674</u> | <u>30,738,150</u> | <u>(31,300,416)</u> | <u>35,644,408</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 3,614,654 | 762,797 | (1,457,496) | 2,919,955 |
| Equipment | <u>1,416,223</u> | <u>170,137</u> | <u>0</u> | <u>1,586,360</u> |
| Total Accumulated Depreciation | <u>5,030,877</u> | <u>932,934</u> | <u>(1,457,496)</u> | <u>4,506,315</u> |
| Governmental Activities Capital Assets, Net | <u>\$31,175,797</u> | <u>\$29,805,216</u> | <u>(\$29,842,920)</u> | <u>\$31,138,093</u> |

Depreciation expense was charged to governmental functions as follows:

| | | |
|---|--|------------------|
| Instruction: | | |
| Regular | | \$711,319 |
| Special | | 28,823 |
| Other Instruction | | 35,260 |
| Support Services: | | |
| Pupil | | 910 |
| Instructional Staff | | 5,593 |
| School Administration | | 6,785 |
| Fiscal | | 985 |
| Business | | 42,669 |
| Operations and Maintenance | | 24,485 |
| Pupil Transportation | | 71 |
| Central | | 57,123 |
| Operation of Non-Instructional Services | | 12,645 |
| Extracurricular Activities | | 6,266 |
| Total Depreciation Expense | | <u>\$932,934</u> |

7. LONG-TERM LIABILITIES

| | Rate | Maturity Dates | Beginning Balance | Additions | Deletions | Ending Balance | Due In One Year |
|---|--------------|----------------|---------------------|---------------------|-----------------------|---------------------|--------------------|
| Governmental Activities: | | | | | | | |
| General Obligation Bonds and Notes: | | | | | | | |
| 1997 School Improvement Bonds | 5.75% | 12/1/16 | \$4,140,000 | \$0 | (\$355,000) | \$3,785,000 | \$380,000 |
| 2003 Property Purchase Note | 3.29% | 9/30/08 | 151,932 | 0 | (49,014) | 102,918 | 50,626 |
| 2005 School Improvement Bonds - | | | | | | | |
| Current Interest | 2.00 - 5.00% | 12/1/33 | 27,630,000 | 0 | (24,920,000) | 2,710,000 | 320,000 |
| Capital Appreciation | 4.10% | 12/1/15 | 416,939 | 60,202 | 0 | 477,141 | 0 |
| 2006 School Improvement Refunding Bonds - | | | | | | | |
| Current Interest | 3.50 - 5.25% | 12/1/32 | 0 | 22,555,000 | 0 | 22,555,000 | 275,000 |
| Capital Appreciation | 4.12 - 4.26% | 12/1/20 | 0 | 2,122,468 | 0 | 2,122,468 | 0 |
| Premium on Refunding Bonds | | 12/1/32 | 0 | 1,744,620 | (67,101) | 1,677,519 | 0 |
| Deferred Amount on Refunding Bonds | | 12/1/32 | 0 | (1,560,362) | 0 | (1,560,362) | 0 |
| Total General Obligation Bonds and Notes | | | 32,338,871 | 24,921,928 | (25,391,115) | 31,869,684 | 1,025,626 |
| Capital Leases: | | | | | | | |
| 2007 Telephone Lease | 4.73% | 6/1/12 | 0 | 86,687 | 0 | 86,687 | 14,215 |
| 2007 Tech Lease | 4.78% | 7/1/10 | 0 | 272,260 | 0 | 272,260 | 72,480 |
| Total Capital Leases | | | 0 | 358,947 | 0 | 358,947 | 86,695 |
| Total Long-Term Liabilities | | | 32,338,871 | 25,280,875 | (25,391,115) | 32,228,631 | 1,112,321 |
| Compensated Absences | | | 519,455 | 162,164 | (56,882) | 624,737 | 155,325 |
| Total Governmental Activities | | | <u>\$32,858,326</u> | <u>\$25,443,039</u> | <u>(\$25,447,997)</u> | <u>\$32,853,368</u> | <u>\$1,267,646</u> |

General obligation bonds and notes will be paid from the general and debt service funds. 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 and Notes | | | Capital Appreciation Bonds | | |
|-------------------------------|------------------------------------|---------------------|---------------------|----------------------------|--------------------|--------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2008 | \$1,025,626 | \$1,265,321 | \$2,290,947 | \$0 | \$0 | \$0 |
| 2009 | 982,292 | 1,304,415 | 2,286,707 | 0 | 0 | 0 |
| 2010 | 1,190,000 | 1,261,582 | 2,451,582 | 0 | 0 | 0 |
| 2011 | 1,255,000 | 1,208,227 | 2,463,227 | 0 | 0 | 0 |
| 2012 | 1,300,000 | 1,158,792 | 2,458,792 | 0 | 0 | 0 |
| 2013-2017 | 3,680,000 | 5,164,007 | 8,844,007 | 365,000 | 855,000 | 1,220,000 |
| 2018-2022 | 1,250,000 | 4,465,000 | 5,715,000 | 2,060,000 | 2,860,000 | 4,920,000 |
| 2023-2027 | 7,225,000 | 3,630,739 | 10,855,739 | 0 | 0 | 0 |
| 2028-2032 | 9,100,000 | 2,018,800 | 11,118,800 | 0 | 0 | 0 |
| 2033 | 2,145,000 | 112,613 | 2,257,613 | 0 | 0 | 0 |
| Total | \$29,152,918 | \$21,589,496 | \$50,742,414 | \$2,425,000 | \$3,715,000 | \$6,140,000 |

8. ADVANCED REFUNDING

On December 28, 2006, the District issued \$26,359,620 in General Obligation bonds with an average interest rate of 4.62% of which \$24,615,000 was used to partially advance refund \$24,615,000 of outstanding 2005 School Improvement Bonds with an average interest rate of 5.62%. The net proceeds of \$26,045,143 (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 2005 School Improvement Bonds. As a result, \$24,615,000 of the 2005 School 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 2005 School Improvement Bonds to reduce its total debt service payments by \$1,893,447 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$931,218.

9. CAPITAL LEASES

The District in fiscal year 2007 has entered into capital leases for a new phone system and various technology equipment.

The leases meet the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments will be made from the General Fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

| <u>Fiscal Year Ending June 30,</u> | <u>Long-Term Debt</u> |
|---|---------------------------|
| 2008 | \$92,980 |
| 2009 | 92,980 |
| 2010 | 92,980 |
| 2011 | 92,980 |
| 2012 | <u>19,920</u> |
| Total Minimum Lease Payments | 391,840 |
| Less: Amount Representing Interest | <u>(32,893)</u> |
| Present Value of Minimum Lease Payments | <u>\$358,947</u> |

Capital assets acquired under capital leases in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

| | |
|-----------|-----------|
| Equipment | \$358,947 |
|-----------|-----------|

10. 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.

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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$275,196, \$285,264, and \$263,808, respectively; 53% has been contributed for fiscal year 2007 and 100% for fiscal year 2006 and 2005.

STATE TEACHERS RETIREMENT SYSTEM

The School 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 School 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 \$1,031,688, \$1,088,100, and \$1,052,268, respectively; 85% has been contributed for fiscal year 2007 and 100% for fiscal year 2006 and 2005.

11. 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$73,692 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$67,226 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

12. 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.

13. JOINTLY GOVERNED ORGANIZATIONS

Unified Purchasing Cooperative of Ohio River Valley - The Unified Purchasing Cooperative of Ohio River Valley is a jointly governed organization among a two county consortium of school districts. The Unified Purchasing Cooperative was organized under the Hamilton Clermont Cooperative Association to benefit member districts with a more economically sound purchasing mechanism for general school, office, and cafeteria supplies. The Unified Purchasing Cooperative organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments.

Great Oaks Joint Vocational School - The Great Oaks Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative each of the participating school districts' elected board. The Vocational School possesses its own budgeting and taxing authority. To obtain financial information write to the Great Oaks Joint Vocational School, Rob Giuffré, who serves as Treasurer, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

Hamilton/Clermont Cooperative Association - The District is a participant in the Hamilton/Clermont Cooperative Association (H/CCA) which is a computer consortium. H/CCA is an association of 24 public school districts within the boundaries of Hamilton and Clermont Counties. The 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 school districts. The governing board of H/CCA consists of the superintendents' and/or treasurers of the participating members. H/CCA is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. Financial information can be obtained from the H/CCA, Al Porter, Director, at 7615 Harrison Avenue, Cincinnati, Ohio 45231-3107.

Greater Cincinnati Insurance Consortium - The District is a member of the Greater Cincinnati Insurance Consortium (GCIC) which is a group insurance consortium. The consortium has 13 member schools and provides a wide range of group insurance benefits to each member schools employees and dependents and designated beneficiaries. The purpose of the consortium is to establish and maintain a fund to provide and/or purchase health insurance, dental insurance, life insurance and other insurance benefits to employees, their dependents and designated beneficiaries. The consortium is governed by a Board of Directors made up from one representative of each school district/service center.

14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2007, the District contracted with the Indiana Insurance Company and Cincinnati Insurance Company for property and general liability insurance and boiler machinery insurance.

Boiler and machinery coverage has a \$1,000 deductible. General liability is provided by Indiana Insurance Company with \$1,000,000 each occurrence \$2,000,000 aggregate limit. Commercial Umbrella Liability Insurance is provided by Indiana Insurance Company with \$5,000,000 each occurrence and \$5,000,000 aggregate limit. Vehicles are covered by Indiana Insurance Company with a \$1,000 deductible. Public official bond insurance is provided by Ohio Casualty Insurance Company. The Treasurer is covered by a bond in the amount of \$50,000. The Superintendent and Board President are covered by bonds in the amount of \$20,000 each. The District has elected to provide employee medical, dental and life insurance through Greater Cincinnati Insurance Consortium. The employees share the cost of the monthly premium for the coverage with the Board.

There were no significant reductions in insurance coverage from the prior year. Also, there were no settlements that exceeded insurance coverage for the past three fiscal years.

15. INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchases Council - The District participates in the Southwestern Ohio Educational Purchases Council Workers' Compensation Group Rating Program (GRP), represented by Hunter Consulting Company, an insurance purchasing pool. The EPC is a council of governments governed by a constitution and an Executive Board elected by the membership. Each member district has an EPC representative. The paid staff of the EPC is limited to a Director, Financial Officer, and Administrative Assistant, in addition to a 3 member benefits team. Each year, the participating school districts pay an enrollment fee for the GRP to cover the costs of administering the program.

16. ACCOUNTABILITY AND COMPLIANCE

Accountability

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

| <u>Fund</u> | <u>Deficit</u> |
|------------------------|----------------|
| Special Revenue Fund: | |
| Title II Eisenhower | \$20,607 |
| Capital Projects Fund: | |
| Building | 7,023 |

The deficit in 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.

17. FUND BALANCE RESERVES FOR SET-ASIDES

The School 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.

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> |
|---|------------------|--------------------------------|
| Set-aside Reserve Balance as of June 30, 2006 | (\$84,422) | \$ 0 |
| Current Year Set-aside Requirement | 223,233 | 223,233 |
| Qualified Disbursements | (120,339) | (372,511) |
| Current Year Offsets | <u>0</u> | <u>0</u> |
| Set-Aside Reserve Balance as of June 30, 2007 | <u>\$18,472</u> | <u>\$0</u> |
| Restricted Cash as of June 30, 2007 | <u>\$18,472</u> | |

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts for capital maintenance reserve to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Qualifying disbursements for capital maintenance reserve during the year were \$372,511, which exceeded the required set-aside and reserve balance. Qualifying disbursements for textbook reserve during the year and carried over from last year were \$204,761.

18. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2007, consisted of the following funds for transfers in and out:

| | <u>Transfers</u> | |
|--------------------------|------------------|------------------|
| | <u>In</u> | <u>Out</u> |
| General Fund | \$0 | \$743,600 |
| Other Governmental Funds | <u>743,600</u> | <u>0</u> |
| Total All Funds | <u>\$743,600</u> | <u>\$743,600</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.

19. PRIOR PERIOD ADJUSTMENTS

Due to the change of capitalization threshold from \$500 to \$1,000 for capital assets, the following adjustment was made to beginning net assets.

| | <u>Governmental Activities</u> |
|------------------------------------|--------------------------------|
| Net Assets, June 30, 2006 | \$6,348,543 |
| Change in capitalization threshold | <u>(7,314)</u> |
| Net Assets, June 30, 2006 | <u>\$6,341,229</u> |

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Madeira City 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 | \$9,645,451 | \$9,673,120 | \$9,673,200 | \$80 |
| Tuition and Fees | 38,664 | 38,775 | 38,775 | 0 |
| Investment Earnings | 181,030 | 171,206 | 181,551 | 10,345 |
| Intergovernmental | 4,393,862 | 4,406,503 | 4,406,503 | 0 |
| Extracurricular Activities | 61,592 | 61,769 | 61,769 | 0 |
| Other Revenues | 144,278 | 144,693 | 144,693 | 0 |
| Total Revenues | 14,464,877 | 14,496,066 | 14,506,491 | 10,425 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,236,632 | 6,544,665 | 6,544,665 | 0 |
| Special | 1,448,352 | 1,519,887 | 1,519,887 | 0 |
| Other | 34,838 | 36,559 | 36,559 | 0 |
| Support Services: | | | | |
| Pupil | 848,754 | 890,675 | 890,675 | 0 |
| Instructional Staff | 289,445 | 303,741 | 303,741 | 0 |
| General Administration | 40,695 | 42,705 | 42,705 | 0 |
| School Administration | 924,814 | 970,491 | 970,491 | 0 |
| Fiscal | 380,256 | 399,039 | 399,037 | 2 |
| Business | 45,201 | 47,433 | 47,433 | 0 |
| Operations and Maintenance | 1,478,585 | 1,551,614 | 1,551,614 | 0 |
| Pupil Transportation | 694,732 | 729,045 | 729,045 | 0 |
| Central | 359,683 | 377,448 | 377,448 | 0 |
| Operation of Non-Instructional Services | 754 | 791 | 791 | 0 |
| Extracurricular Activities | 311,293 | 326,668 | 326,668 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 49,014 | 49,014 | 49,014 | 0 |
| Interest and Fiscal Charges | 2,457 | 4,999 | 4,999 | 0 |
| Total Expenditures | 13,145,505 | 13,794,774 | 13,794,772 | 2 |
| Excess of Revenues Over (Under) Expenditures | 1,319,372 | 701,292 | 711,719 | 10,427 |
| Other financing sources (uses): | | | | |
| Advances in | 59,159 | 59,329 | 59,329 | 0 |
| Advances (Out) | (56,537) | (59,329) | (59,329) | 0 |
| Transfers (Out) | (708,602) | (743,600) | (743,600) | 0 |
| Total Other Financing Sources (Uses) | (705,980) | (743,600) | (743,600) | 0 |
| Net Change in Fund Balance | 613,392 | (42,308) | (31,881) | 10,427 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 2,249,832 | 2,249,832 | 2,249,832 | 0 |
| Fund Balance End of Year | \$2,863,224 | \$2,207,524 | \$2,217,951 | \$10,427 |

See accompanying notes to the required supplementary information.

MADEIRA CITY 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 Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School 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 Board during the year.

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 | (\$116,890) |
| Net Adjustment for Revenue Accruals | (392,019) |
| Net Adjustment for Expenditure Accruals | 553,608 |
| Encumbrances | <u>(76,580)</u> |
| Budget Basis | <u>(\$31,881)</u> |

MADEIRA CITY SCHOOL DISTRICT

Yellow Book Report

June 30, 2007



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Madeira City School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madeira City School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2007. The report on the aggregate remaining fund information was qualified due to the destruction of records relating to athletic programs. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the audit committee, the Auditor of State and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Plattenburg & Associates, Inc.

Cincinnati, Ohio
December 10, 2007

Schedule of Findings
June 30, 2007

Finding Number 2007-001

Non Compliance Citation

Ohio Revised Code Section 5705.41D states that no contracts or orders involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. During the year 10% of expenditures tested were not properly encumbered prior to incurring the obligation. Failure to properly certify funds could result in overspending funds.

Recommendation

We recommend that the District comply with the Ohio Revised Code by reviewing invoices and ensuring that all expenditures have a purchase order prior to making a purchase.

Management's Comments/Response

The District is reviewing expenditures and requiring purchase orders for District purchases.

Finding Number 2007-002

Non Compliance Citation

Ohio Administrative Code Section 117-2-02(D) requires all local public offices to maintain the records required for receipt transactions to be recorded on the receipt ledger. The District did not maintain documentation supporting the extracurricular receipts.

Recommendation

We recommend that the District comply with the Ohio Administrative Code by maintaining documentation supporting the extracurricular receipts.

Management's Comments/Response

The District has maintained documentation supporting the extracurricular receipts in the past. The documentation for the 2007 fiscal year was destroyed in error during a move to a new facility. The District will maintain the required supporting documentation in the future.



Mary Taylor, CPA
Auditor of State

MADEIRA CITY SCHOOL DISTRICT

HAMILTON 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
MARCH 6, 2008**