



**Auditor of State
Betty Montgomery**

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Gorham Fayette Local School District
Fulton County
311 North Eagle Street
P. O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gorham Fayette Local School District, Fulton County, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gorham Fayette Local School District, Fulton County, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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.

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

Betty Montgomery
Auditor of State

March 10, 2006

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The discussion and analysis of the Gorham Fayette Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- In total, net assets increased \$131,653.
- General revenues accounted for \$4,759,340, or 87 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$704,433 or 13 percent of total revenues of \$5,463,773.
- The District's major funds included the General Fund and the Bond Retirement Fund.
- The General Fund had \$4,613,168 in revenues and \$4,417,536 in expenditures and other financing uses. The General Fund's balance increased \$195,632 from the prior fiscal year.
- The Bond Retirement Fund had \$240,446 in revenues and \$181,448 in expenditures. The Bond Retirement Fund's balance increased \$58,998 from the prior fiscal year.
- The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

The 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, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Fund are the only two major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of governmental activities which include all its programs and services such as instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004

**Table 1
Net Assets
Governmental Activities**

	<u>2005</u>	<u>2004</u>
<u>Assets:</u>		
Current and Other Assets	\$3,043,315	\$2,951,459
Capital Assets, Net	3,190,735	3,361,129
Total Assets	<u>6,234,050</u>	<u>6,312,588</u>
<u>Liabilities:</u>		
Current and Other Liabilities	1,756,573	1,941,973
Long-Term Liabilities	2,352,791	2,377,582
Total Liabilities	<u>4,109,364</u>	<u>4,319,555</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,221,027	1,256,996
Restricted	365,634	318,094
Unrestricted	538,025	417,943
Total	<u>\$2,124,686</u>	<u>\$1,993,033</u>

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004. The decrease in assets was attributed to depreciation expense on capital assets.

**Table 2
Change in Net Assets
Governmental Activities**

	<u>2005</u>	<u>2004</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$299,485	\$286,652
Operating Grants, Contributions and Interest	404,948	393,130
Capital Grants and Contributions		9,075
Total Program Revenues	<u>704,433</u>	<u>688,857</u>
General Revenues:		
Revenue in Lieu of Taxes	304,939	336,497
Property Taxes	1,410,009	1,417,589
Income Taxes	373,995	353,758
Grants and Entitlements	2,563,817	2,308,632
Investment Earnings	33,825	14,338
Gifts and Donations	5,650	1,775
Miscellaneous	67,105	52,185
Total General Revenues	<u>4,759,340</u>	<u>4,484,774</u>
Total Revenues	<u>5,463,773</u>	<u>5,173,631</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

<u>Expenses:</u>		
Instruction	2,711,201	2,698,280
Support Services:		
Pupils	348,517	231,689
Instructional Staff	322,090	291,768
Board of Education	73,524	57,565
Administration	432,681	422,915
Fiscal	178,733	180,237
Operation and Maintenance of Plant	392,846	421,907
Pupil Transportation	240,043	180,154
Central	30,924	31,964
Non-Instructional	183,705	297,945
Extracurricular Activities	194,285	191,952
Capital Outlay	111,078	146,779
Interest and Fiscal Charges	112,493	113,125
Total Expenses	<u>5,332,120</u>	<u>5,266,280</u>
Increase/(Decrease) in Net Assets	<u>\$131,653</u>	<u>(\$92,649)</u>

Intergovernmental revenues increased from fiscal year 2004 to 2005, primarily through an increase in state foundation aid included under grants and entitlements. There wasn't any significant change in expenses from fiscal year 2004 to 2005.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$2,711,201	\$2,201,628	\$2,698,280	\$2,238,262
Support Services:				
Pupils	348,517	343,063	231,689	229,725
Instructional Staff	322,090	316,590	291,768	281,931
Board of Education	73,524	73,524	57,565	57,565
Administration	432,681	432,681	422,915	422,915
Fiscal	178,733	178,733	180,237	180,237
Operation and Maintenance of Plant	392,846	392,846	421,907	421,907
Pupil Transportation	240,043	235,869	180,154	180,154
Central	30,924	21,924	31,964	31,964
Non-Instructional	183,705	69,883	297,945	157,818
Extracurricular Activities	194,285	137,375	191,952	115,041
Capital Outlay	111,078	111,078	146,779	146,779
Interest and Fiscal Charges	112,493	112,493	113,125	113,125
Total Expenses	<u>\$5,332,120</u>	<u>\$4,627,687</u>	<u>\$5,266,280</u>	<u>\$4,577,423</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 85 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. The remaining 13 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Fund. Total governmental funds had revenues and other financing source of \$5,503,851 and expenditures and other financing uses of \$5,255,769. The net positive change of \$248,082 in fund balance for the year indicates that the District was able to meet current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$4,498,888 while actual expenditures and other financing uses were \$4,420,751. The \$78,137 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$3,190,735 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2005, the District had \$2,040,316 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2023. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2005, the District's overall legal debt margin was \$1,731,989, with an un-voted debt margin of \$41,915.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Fayette is a small rural community of 1,300 people in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the second year of the state biennium budget. According to the 2005 Local District Report Card, 46.1 percent of District revenue sources are from local funds, 49.1 percent is from state funds and the remaining 4.8 percent is from federal funds. The total expenditure per pupil was calculated at \$9,184.

The District has been approved by the Ohio School Facilities Commission for a new PreK-12 building. This approval is through the Extreme Environmental Contamination Program because the high school building has contamination underneath it.

In August 2005, the District passed a 28-year bond issue to generate \$4,885,000 and also included a .5 mill tax levy for maintenance in the new building. This bond issue provides the funds for an Ohio School Facilities Commission (OSFC) construction project. The funds break down into \$3,196,947 as the local share required by the OSFC and \$1,688,053 for locally funded initiatives, which include the purchase of land. In October 2005, the OSFC certified approval for the state's share of the project which is \$13,629,089.

In May 2002, the District passed a five-year levy to generate approximately \$245,000 annually. This levy provides a source of funds for the financial operations and stability of the District. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

The District has two businesses that will be operating soon that are receiving 100% abatements on real estate. These agreements are classified under what is called a Community Reinvestment Area Project, which means that the District will receive no donation for the abatement as is done on all of our other abatements.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Homer Hendricks, Treasurer, Gorham Fayette Local School District, 311 North Eagle St., P.O. Box 309, Fayette, Ohio 43521-0309.

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**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2005**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	1,493,532
Materials and Supplies Inventory		9,984
Accrued Interest Receivable		810
Accounts Receivable		1,239
Prepaid Items		4,742
Taxes Receivable		1,381,628
Income Taxes Receivable		151,380
Capital Assets:		
Non-Depreciable Capital Assets		84,100
Depreciable Capital Assets, net		3,106,635
Total Assets		<u>6,234,050</u>
LIABILITIES:		
Accounts Payable		3,598
Accrued Wages and Benefits		407,625
Intergovernmental Payable		80,943
Deferred Revenue		1,264,407
Long-Term Liabilities:		
Due Within One Year		132,674
Due in More Than One Year		2,220,117
Total Liabilities		<u>4,109,364</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,221,027
Restricted for Debt Service		323,510
Restricted for Other Purposes		42,124
Unrestricted		538,025
Total Net Assets	\$	<u><u>2,124,686</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 2,250,728	\$ 155,541	\$ 206,426	\$ (1,888,761)
Special	381,644		140,436	(241,208)
Vocational	72,167		7,170	(64,997)
Other	6,662			(6,662)
Support Services:				
Pupils	348,517		5,454	(343,063)
Instructional Staff	322,090		5,500	(316,590)
Board of Education	73,524			(73,524)
Administration	432,681			(432,681)
Fiscal	178,733			(178,733)
Operation and Maintenance of Plant	392,846			(392,846)
Pupil Transportation	240,043		4,174	(235,869)
Central	30,924		9,000	(21,924)
Operation of Non-Instructional Services	183,705	87,034	26,788	(69,883)
Extracurricular Activities	194,285	56,910		(137,375)
Capital Outlay	111,078			(111,078)
Debt Service:				
Interest and Fiscal Charges	112,493			(112,493)
Totals	\$ <u>5,332,120</u>	\$ <u>299,485</u>	\$ <u>404,948</u>	<u>(4,627,687)</u>

General Revenues:

Taxes:	
Revenue in Lieu of Taxes	304,939
Property Taxes, Levied for General Purposes	1,198,675
Property Taxes, Levied for Debt Service	211,334
Income Taxes	373,995
Grants and Entitlements not Restricted to Specific Programs	2,563,817
Gifts and Donations	5,650
Investment Earnings	33,825
Miscellaneous	67,105
Total General Revenues	<u>4,759,340</u>
Change in Net Assets	131,653
Net Assets Beginning of Year	1,993,033
Net Assets End of Year	\$ <u><u>2,124,686</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,142,353	304,009	47,170	\$ 1,493,532
Materials and Supplies Inventory	6,288		3,696	9,984
Accrued Interest Receivable	810			810
Accounts Receivable	1,200		39	1,239
Prepaid Items	4,742			4,742
Taxes Receivable	1,168,096	213,532		1,381,628
Income Taxes Receivable	151,380			151,380
Total Assets	\$ 2,474,869	\$ 517,541	\$ 50,905	\$ 3,043,315
Liabilities				
Current Liabilities:				
Accounts Payable	3,598			3,598
Accrued Wages and Benefits	399,379		8,246	407,625
Intergovernmental Payable	46,663		535	47,198
Matured Compensated Absences Payable	57,674			57,674
Deferred Revenue	1,137,612	202,500		1,340,112
Total Liabilities	1,644,926	202,500	8,781	1,856,207
Fund Balances				
Reserved:				
Reserved for Materials and Supplies Inventory	6,288			6,288
Reserved for Encumbrances	14,135			14,135
Reserved for Prepaid Items	4,742			4,742
Reserved for Property Taxes	55,364	11,032		66,396
Unreserved, Undesignated, Reported in:				
General Fund	749,414			749,414
Special Revenue Funds			42,124	42,124
Debt Service Funds		304,009		304,009
Total Fund Balances	829,943	315,041	42,124	1,187,108
Total Liabilities and Fund Balances	\$ 2,474,869	\$ 517,541	\$ 50,905	\$ 3,043,315

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances	\$	1,187,108
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		3,190,735
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		75,705
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(33,745)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(2,040,316)	
Compensated Absences Payable	(254,801)	
	<u> </u>	(2,295,117)
Net Assets of Governmental Activities	\$	<u><u>2,124,686</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,223,055	\$ 216,244		\$ 1,439,299
Revenue in Lieu of Taxes	304,939			304,939
Income Tax	374,783			374,783
Intergovernmental	2,502,656	24,202	\$ 441,907	2,968,765
Interest	33,700		125	33,825
Tuition and Fees	128,618			128,618
Rent	1,240			1,240
Extracurricular Activities			82,593	82,593
Gifts and Donations	4,650		1,000	5,650
Customer Sales and Services			87,034	87,034
Miscellaneous	39,527		27,578	67,105
Total Revenues	<u>4,613,168</u>	<u>240,446</u>	<u>640,237</u>	<u>5,493,851</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,040,045		217,379	2,257,424
Special	340,619		39,288	379,907
Vocational	73,051			73,051
Other	6,662			6,662
Support Services:				
Pupils	248,615		98,315	346,930
Instructional Staff	258,625		26,854	285,479
Board of Education	73,524			73,524
Administration	427,513		54	427,567
Fiscal	170,278	5,138	1,500	176,916
Operation and Maintenance of Plant	396,021			396,021
Pupil Transportation	219,446			219,446
Central	27,211		3,356	30,567
Operation of Non-Instructional Services	5,140		181,369	186,509
Extracurricular Activities	114,860		77,114	191,974
Capital Outlay	5,926		11,556	17,482
Debt Service:				
Principal		80,000		80,000
Interest		96,310		96,310
Total Expenditures	<u>4,407,536</u>	<u>181,448</u>	<u>656,785</u>	<u>5,245,769</u>
Excess of Revenues Over (Under) Expenditures	<u>205,632</u>	<u>58,998</u>	<u>(16,548)</u>	<u>248,082</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			10,000	10,000
Transfers Out	(10,000)			(10,000)
Total Other Financing Sources and Uses	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Net Change in Fund Balances	195,632	58,998	(6,548)	248,082
Fund Balance at Beginning of Year	634,311	256,043	48,672	939,026
Fund Balance at End of Year	<u>\$ 829,943</u>	<u>\$ 315,041</u>	<u>\$ 42,124</u>	<u>\$ 1,187,108</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 248,082

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year.

Capital Outlay - Depreciable Capital Assets	23,429	
Depreciation	<u>(188,085)</u>	
		(164,656)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(5,738)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Delinquent Property Taxes	(29,290)	
Income Taxes	<u>(788)</u>	
		(30,078)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

80,000

Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.

(16,183)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	1,578	
Compensated Absences Payable	<u>18,648</u>	
		<u>20,226</u>

Change in Net Assets of Governmental Activities		\$ <u><u>131,653</u></u>
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See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,239,307	\$ 1,239,307	\$ 1,230,164	\$ (9,143)
Revenue in Lieu of Taxes	307,939	307,939	304,939	(3,000)
Income Tax	345,000	345,000	369,034	24,034
Intergovernmental	2,262,500	2,477,500	2,502,657	25,157
Interest	15,000	15,000	33,099	18,099
Tuition and Fees	118,000	129,000	128,618	(382)
Rent	1,400	1,400	1,240	(160)
Gifts and Donations	2,500	2,500	4,650	2,150
Customer Sales and Services	1,000	1,000		(1,000)
Miscellaneous	25,300	25,300	37,999	12,699
Total Revenues	<u>4,317,946</u>	<u>4,543,946</u>	<u>4,612,400</u>	<u>68,454</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,107,822	2,061,968	2,054,763	7,205
Special	503,479	337,488	334,178	3,310
Vocational	75,440	75,515	73,626	1,889
Other	27,800	9,600	6,663	2,937
Support Services:				
Pupils	181,470	254,522	246,816	7,706
Instructional Staff	251,113	270,422	256,065	14,357
Board of Education	127,335	87,335	83,548	3,787
Administration	431,575	430,530	423,404	7,126
Fiscal	168,620	175,371	167,448	7,923
Operation and Maintenance of Plant	420,016	413,438	401,991	11,447
Pupil Transportation	216,585	212,679	208,918	3,761
Central	29,350	29,350	27,206	2,144
Operation of Non-Instructional Services	2,300	2,300	2,300	-
Extracurricular Activities	130,810	119,430	115,060	4,370
Capital Outlay	15,500	6,100	5,925	175
Total Expenditures	<u>4,689,215</u>	<u>4,486,048</u>	<u>4,407,911</u>	<u>78,137</u>
Excess of Revenues Over (Under) Expenditures	<u>(371,269)</u>	<u>57,898</u>	<u>204,489</u>	<u>146,591</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	250	250		(250)
Refund of Prior Year Expenditures	2,000	2,000	335	(1,665)
Transfers Out	(10,000)	(10,000)	(10,000)	-
Refund of Prior Year Receipts	(5,500)	(2,840)	(2,840)	-
Advances Out	(5,000)		-	-
Total Other Financing Sources and Uses	<u>(18,250)</u>	<u>(10,590)</u>	<u>(12,505)</u>	<u>(1,915)</u>
Net Change in Fund Balances	(389,519)	47,308	191,984	144,676
Fund Balance (Deficit) at Beginning of Year	898,377	898,377	898,377	-
Prior Year Encumbrances Appropriated	33,920	33,920	33,920	-
Fund Balance (Deficit) at End of Year	<u>\$ 542,778</u>	<u>\$ 979,605</u>	<u>\$ 1,124,281</u>	<u>\$ 144,676</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	Private Purpose Trust	Agency Fund
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 15,317	\$ 21,133
Total Assets	15,317	21,133
Liabilities		
Current Liabilities:		
Undistributed Monies		21,133
Total Liabilities		21,133
Net Assets		
Held in Trust for Scholarships	15,317	
Total Net Assets	\$ 15,317	\$

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>312</u>
Total Additions	<u>312</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>170</u>
Total Deductions	<u>170</u>
Change in Net Assets	142
Net Assets Beginning of Year	<u>15,175</u>
Net Assets End of Year	<u>\$ <u>15,317</u></u>

See Accompanying Notes to the Basic Financial Statements

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**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Gorham Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Gorham Fayette Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 18 non-certified personnel and 45 certified full-time teaching personnel who provide services to 534 students and other community members.

The Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

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.

Government-Wide Financial Statements

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function 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 grants 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 governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. 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 General Fund and the Bond Retirement Fund 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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The other governmental funds of the District account for grants and other resources of the District whose uses are restricted to a particular purpose.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of a private-purpose trust and agency funds. Private-purpose trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's private purpose trust fund accounts for a program to provide financial assistance to a graduate of the District in pursuit of a math/science career by aiding in the payment of tuition expense. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations. The District's agency funds account for various student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases 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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or 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.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the function/object level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the function and object level in all other funds are made by the Treasurer.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the 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 amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment 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 fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2005, investments were limited to STAR Ohio.

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

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$33,700, which includes \$8,425 assigned from other funds. Interest in the amount of \$125 was credited to other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

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

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. 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 capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. Interfund Balances

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

J. 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 liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

L. 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. Net assets restricted for other purposes include activities for food service operations, music, athletic programs, and federal and state grants restricted to expenditures for specific purposes.

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

N. Interfund Assets/Liabilities

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.

O. Prepaid Items

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Estimates

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

Q. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

3. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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 (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	\$195,632
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	183,432
Accrued FY 2005, Not Yet Received in Cash	(183,874)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(482,464)
Accrued FY 2005, Not Yet Paid in Cash	496,284
Encumbrances Outstanding at Year End (Budget Basis)	(17,026)
Budget Basis	\$191,984

4. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

4. DEPOSITS AND INVESTMENTS – (Continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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.

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$1,213,584 of the District's bank balance of \$1,451,352 was exposed to custodial credit 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.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

4. DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2005, the District had an investment of \$136,429 in STAR Ohio.

STAR Ohio carries a rating of AAA by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating.

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fulton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, 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 was recognized as revenue.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

5. PROPERTY TAXES – (Continued)

The amount available as an advance at June 30, 2005, was \$55,364 in the General Fund, and \$11,032 in the Bond Retirement Fund. The amount available as an advance at June 30, 2004, was \$62,473 in the General Fund, and \$12,489 in the Bond Retirement Fund.

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$30,537,960	73%	\$30,989,740	74%
Industrial/Commercial	3,690,790	9%	3,690,790	9%
Public Utility	2,002,520	5%	2,122,440	5%
Tangible Personal	5,736,330	13%	5,111,528	12%
Total Assessed Value	<u>\$41,967,600</u>	<u>100%</u>	<u>\$41,914,498</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$56.66		\$56.66	

6. INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2005, the District recorded income tax revenue of \$374,783 in the General Fund, of which \$151,380 is recorded as a receivable at June 30, 2005.

7. RECEIVABLES

Receivables at June 30, 2005, consisted of property, income tax, and accrued interest. 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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

8. CAPITAL ASSETS

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$84,100			\$84,100
Total Nondepreciable Capital Assets	<u>84,100</u>			<u>84,100</u>
Depreciable Capital Assets				
Land Improvements	78,356			78,356
Buildings and Building Improvements	4,422,269			4,422,269
Furniture, Fixtures, and Equipment	812,564	\$20,830	(\$46,944)	786,450
Vehicles	387,023			387,023
Books	333,233	2,599		335,832
Total Depreciable Capital Assets	<u>6,033,445</u>	<u>23,429</u>	<u>(46,944)</u>	<u>6,009,930</u>
Less Accumulated Depreciation				
Land Improvements	64,551	(2,948)		67,499
Buildings and Building Improvements	1,652,908	(109,746)		1,762,654
Furniture, Fixtures, and Equipment	517,104	(40,412)	41,206	516,310
Vehicles	274,902	(18,164)		293,066
Books	246,951	(16,815)		263,766
Total Accumulated Depreciation	<u>2,756,416</u>	<u>(188,085)</u>	<u>41,206</u>	<u>2,903,295</u>
Depreciable Capital Assets, Net	<u>3,277,029</u>	<u>(164,656)</u>	<u>(5,738)</u>	<u>3,106,635</u>
Governmental Activities Capital Assets, Net	<u>\$3,361,129</u>	<u>(\$164,656)</u>	<u>(\$5,738)</u>	<u>\$3,190,735</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$22,735
Special	388
Vocational	136
Support Services:	
Instructional Staff	33,687
Administration	2,450
Fiscal	285
Operation and Maintenance of Plant	11,899
Pupil Transportation	18,025
Non-Instructional Services	2,009
Extracurricular	2,875
Capital Outlay	93,596
Total Depreciation Expense	<u>\$188,085</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

9. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully considered.

**Coverage provided by the Marsh Insurance
(Northwest Ohio Educational Council Self-Insurance Group)**

General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Blanket Property Insurance	1,000,000
Auto Coverage	
Uninsured/underinsured Coverage	1,000,000
Liability	1,000,000
Auto Medical Payment	5,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for their share of any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Rating Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 16). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The District paid \$480 in premiums during the 2005 fiscal year.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

10. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$63,224, \$53,371, and \$43,298, respectively. The full amount has been contributed for fiscal years 2005, 2004, and 2003.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

10. DEFINED PENSION BENEFIT PLANS – (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003, was \$311,889, \$302,971, and \$283,003, respectively; 89 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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 Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement 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 the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$23,991.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

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

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$27,532 for fiscal year 2005.

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 at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently eligible to receive health care benefits.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

12. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Certain employees are permitted to carry over vacation leave earned in the current year into the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a certified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 57 days. The amount paid to a classified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 57 days.

At June 30, 2005, the current amount of unpaid compensated absences in all funds was \$57,674, and the long-term amount was \$254,801.

13. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	<u>Balance at 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/05</u>	<u>Amount Due In one Year</u>
General Obligation Bonds	\$2,104,133	\$16,183	\$80,000	\$2,040,316	\$75,000
Compensated Absences	331,123	254,801	273,449	312,475	57,674
Total Long-Term Obligations	<u>\$2,435,256</u>	<u>\$270,984</u>	<u>\$353,449</u>	<u>\$2,352,791</u>	<u>\$132,674</u>

General Obligation Bonds

Proceeds from the outstanding bonds were used for the purpose of renovating, repairing, and improving existing school buildings and facilities, including improving access for the disabled, furnishing and equipping the same. These bonds were issued on February 19, 1998. The bonds consisted of \$2,380,000 in current interest bonds (\$880,000 issued as serial bonds and \$1,500,000 issued as term bonds) and \$24,708 in capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	75,000	4.30%
2006	85,000	4.35%
2007	90,000	4.40%
2008	95,000	4.45%
2009	100,000	4.50%

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

13. LONG-TERM OBLIGATIONS – (Continued)

The term bonds that mature on December 1, 2023, have interest rates of 5 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2013	\$105,000
2014	110,000
2015	115,000
2016	120,000
2017	125,000
2018	130,000
2019	145,000
2020	150,000
2021	150,000
2022	170,000
2023	180,000

The current interest bonds maturing on December 1, 2008, are subject to redemption at the option of the District, either in whole on any date or in part on any interest payment date on or after December 1, 2008, at the redemption prices equal to the following percentages of the principal amount redeemed, plus accrued interest to the redemption date:

<u>Redemption Date (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101%
December 1, 2009 and thereafter	100%

When partial redemption is authorized, the current interest bonds or portions thereof will be selected by lot within a maturity in such manner as the paying agent and registrar may determine, provided however, that the portion of any current interest bond so selected will be in the amount of \$5,000 or any integral multiple.

The capital appreciation bonds were issued in the aggregate original principal amount of \$24,708 and mature on December 1 in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>
2010	\$9,807	\$105,000
2011	8,142	105,000
2012	6,759	105,000

The value of the capital appreciation bonds reported at June 30, 2005, was \$70,608.

Total expenditures for interest for the above debt for the period ended June 30, 2005, was \$112,493.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

13. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$75,000	\$92,997	\$167,997
2007	85,000	89,536	174,536
2008	90,000	85,708	175,708
2009	95,000	81,614	176,614
2010	100,000	77,250	177,250
2011-2015	310,316	584,059	894,375
2016-2020	635,000	245,375	880,375
2021-2024	650,000	67,750	717,750
Total	<u>\$2,040,316</u>	<u>\$1,324,289</u>	<u>\$3,364,605</u>

14. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Balance as of June 30, 2004	(\$49,585)	
Current Year Set-aside Requirement	67,980	\$67,980
Qualifying Disbursements	(85,530)	(111,333)
Total Set-aside Balance as of June 30, 2005	<u>(\$67,135)</u>	<u>(\$43,353)</u>
Set-aside Balance Carried Forward to FY 2006	<u>(\$67,135)</u>	

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts for the Capital Acquisition are not presented as being carried forward to the next fiscal year.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook and instructional material set-aside requirements.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

15. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams 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. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$34,915. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,500. To obtain financial information, write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; and one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information, write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

16. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$516,416. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

16. GROUP PURCHASING POOLS – (Continued)

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$480 to the WCGRP to cover the costs of administering the program.

17. RELATED ORGANIZATION

Normal Memorial Library

The Normal Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Gorham-Fayette Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies.

Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Normal Memorial Library, Irene Fether, Clerk/Treasurer, at 301 North Eagle Street, Fayette, Ohio 43521.

18. SCHOOL FUNDING DECISION

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

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

19. INTERFUND TRANSFERS

During the year ended June 30, 2005, the General Fund transferred \$10,000 to Other Non-major Governmental Funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

20. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY, OHIO**

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

20. CONTINGENCIES – (Continued)

B. Litigation

There are currently no matters in litigation with the District as defendant.

21. ACCOUNTABILITY

At June 30, 2005, the Ohio Reads, Title I, Title II-A and Miscellaneous Federal Grant special revenue funds had deficit fund balance, in the amount of \$47, \$117, \$52, and \$82 respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

22. SUBSEQUENT EVENTS

- A.** On July 13, 2005, the District issued School Improvement Refunding Bonds in the amount of \$1,475,000 to refund a portion of its original 1998 bond issue (described in Note 13) at a lower interest rate. The new bond issue was current interest bonds and these bonds will mature in 2023. The original \$1,600,000 term bonds outstanding at June 30, 2005, were defeased.
- B.** The District passed a resolution on August 15, 2005, authorizing the issuance of notes in an amount not to exceed \$4,885,000 in anticipation of the issuance of bonds for the purpose of paying the local share of a school construction project under the Extreme Environmental Contamination Program. These notes will mature on April 14, 2006. Subsequently, the District passed a resolution on December 19, 2005, authorizing the issuance the bonds in an amount not to exceed \$4,885,000 for this school construction project. The Bonds shall be designated "Gorham Fayette Local School District, Fulton County, Ohio School Facilities Construction and Improvement Bonds, Series 2005." The related school project consists of acquiring land, making site improvements, constructing school buildings, and furnishing and equipping the school facilities. Site work and construction of the new facilities is expected to begin during fiscal year 2007. The Ohio School Facilities Commission has certified the expected budget for this project to be \$16,826,036, with \$13,629,089 designated as the State's share and \$3,196,947 designated as the Local share.



**Auditor of State
Betty Montgomery**

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

Gorham Fayette Local School District
Fulton County
311 North Eagle Street
P. O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District, Fulton County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 10, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Gorham Fayette Local School District
Fulton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 10, 2006



**Auditor of State
Betty Montgomery**

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GORHAM FAYETTE LOCAL SCHOOL DISTRICT

FULTON 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 28, 2006**