



**Auditor of State
Betty Montgomery**

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of Galion City School District, Crawford County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of Galion City School District, Crawford County, Ohio, as of June 30, 2003, and the respective changes in financial position, 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.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Managements 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.

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



Betty Montgomery
Auditor of State

December 15, 2003

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the Galion City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$274,291 which represents a 6.98% increase from 2002.
- General revenues accounted for \$15,435,012 in revenue or 85.20% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,681,811 or 14.80% of total revenues of \$18,116,823.
- The District had \$17,842,532 in expenses related to governmental activities; only \$2,681,811 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,435,012 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,716,219 in revenues and \$15,874,304 in expenditures. During fiscal 2003, the general fund's fund balance decreased \$215,440 from \$1,880,863 to \$1,665,423.

Using these Basic Financial Statements

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

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities <u>2003</u>
<u>Assets</u>	
Current and other assets	\$ 8,497,882
Capital assets	<u>3,017,432</u>
Total assets	<u>11,515,314</u>
<u>Liabilities</u>	
Current liabilities	6,109,637
Long-term liabilities	<u>1,202,340</u>
Total liabilities	<u>7,311,977</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	2,942,904
Restricted	160,601
Unrestricted	<u>1,099,832</u>
Total net assets	<u>\$ 4,203,337</u>

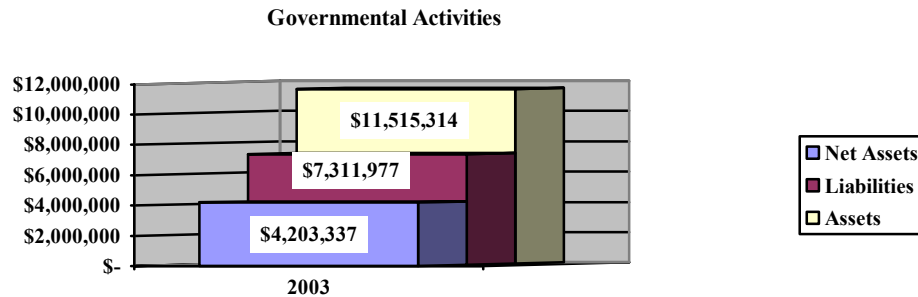
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$4,203,337. Of this total, \$1,099,832 is unrestricted in use.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

At year-end, capital assets represented 26.20% of total assets. Capital assets include land, and improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$2,942,904. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$160,601, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,099,832 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 945,171
Operating grants and contributions	1,456,910
Capital grants and contributions	279,730
General revenues:	
Property taxes	6,587,632
Grants and entitlements	8,739,307
Investment earnings	57,411
Other	50,662
Total revenues	\$ 18,116,823

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 7,574,072
Special	2,084,575
Vocational	251,249
Other	461,684
Support services:	
Pupil	648,200
Instructional staff	940,729
Board of education	63,801
Administration	1,579,571
Fiscal	398,088
Operations and maintenance	1,466,455
Pupil transportation	660,287
Central	276,585
Food service operations	629,120
Operations of non-instructional services	25,838
Extracurricular activities	687,461
Intergovernmental pass through	90,432
Interest and fiscal charges	<u>4,385</u>
Total expenses	<u>17,842,532</u>
Increase in net assets	<u>\$ 274,291</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$274,291. Total governmental expenses of \$17,842,532 were offset by program revenues of \$2,681,811 and general revenues of \$15,435,012. Program revenues supported 15.03% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.60% of total governmental revenue.

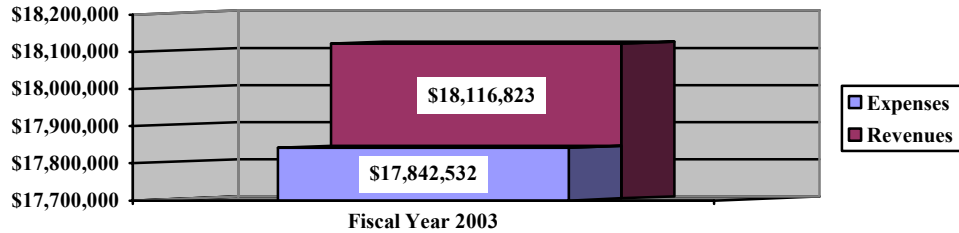
The largest expense of the District is for instructional programs. Instruction expenses totaled \$10,371,580 or 58.13% of total governmental expenses for fiscal 2003.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

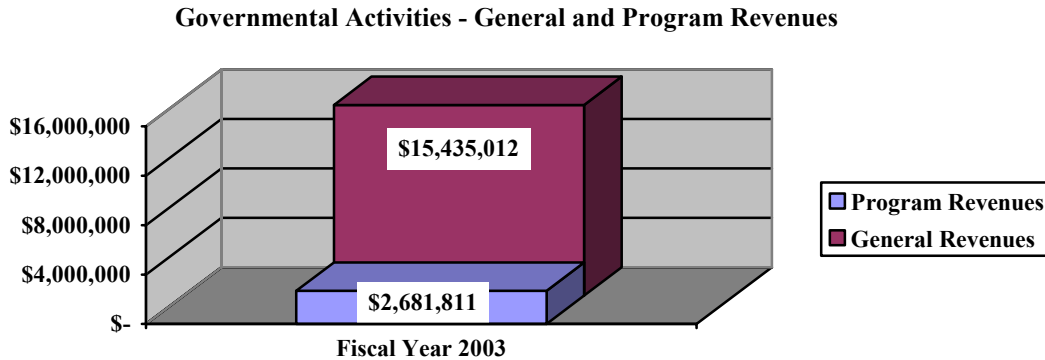
	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 7,574,072	\$ 6,791,964
Special	2,084,575	1,521,310
Vocational	251,249	251,249
Other	461,684	459,264
Support services:		
Pupil	648,200	644,575
Instructional staff	940,729	732,398
Board of education	63,801	63,801
Administration	1,579,571	1,547,662
Fiscal	398,088	395,688
Operations and maintenance	1,466,455	1,250,249
Pupil transportation	660,287	659,966
Central	276,585	269,029
Operations of non-instructional services	25,838	(1,093)
Food service operations	629,120	29,382
Extracurricular activities	687,461	527,625
Intergovernmental pass-through	90,432	13,267
Interest and fiscal charges	4,385	4,385
Total expenses	\$ 17,842,532	\$ 15,160,721

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 87.00% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.97%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,946,834, which is lower than last year's total of \$2,025,559. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance June 30, 2003</u>	<u>Fund Balance June 30, 2002</u>	<u>Increase (Decrease)</u>
General	\$ 1,665,423	\$ 1,880,863	\$ (215,440)
Other Governmental	<u>281,411</u>	<u>144,696</u>	<u>136,715</u>
Total	<u>\$ 1,946,834</u>	<u>\$ 2,025,559</u>	<u>\$ (78,725)</u>

General Fund

The District's general fund balance decreased by \$215,440 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. On March 3, 2003 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The amount of this reduction to the District was \$108,040. Also on August 8, 2002 the Board of Education authorized the establishment of a locally-funded Permanent Improvement Fund, to be funded by tax abatement allocations, which were previously recorded in the General Fund. The unencumbered fund balance in the Permanent Improvement Fund as of June 30, 2003 was \$108,480. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,439,946	\$ 6,027,373	\$ 412,573	6.84%
Tuition	377,860	102,630	275,230	268.18%
Earnings on investments	50,006	65,477	(15,471)	-23.63%
Intergovernmental	8,739,307	8,676,625	62,682	0.72%
Other revenues	<u>109,100</u>	<u>348,537</u>	<u>(239,437)</u>	68.70%
Total	<u>\$ 15,716,219</u>	<u>\$ 15,220,642</u>	<u>\$ 495,577</u>	3.26%
<u>Expenditures</u>				
Instruction	\$ 9,326,758	\$ 8,881,681	\$ 445,077	5.01%
Support services	5,825,607	5,008,981	816,626	16.30%
Non-instructional services	21,149	11,889	9,260	77.89%
Extracurricular activities	471,884	409,959	61,925	15.11%
Facilities acquisition and construction	<u>228,906</u>	<u>15,888</u>	<u>213,018</u>	1340.7%
Total	<u>\$ 15,874,304</u>	<u>\$ 14,328,398</u>	<u>\$ 1,545,906</u>	10.79%

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 2003, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues were \$15,619,900. Actual revenues for fiscal 2003 was \$15,842,340. This represents a \$222,440 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures excluding other financing uses) totaled \$16,402,037 and final appropriations totaled \$16,302,037. The actual budget basis expenditures for fiscal year 2003 totaled \$16,041,418, which was \$260,619 less than the final budget appropriations. The decrease in appropriations was due to conservative budgeting in the original appropriations measure.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$3,017,432 invested in land, and improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

Capital Assets at June 30 (Net of Depreciation)		
	2003	2002
Land	\$ 530,660	\$ 530,660
Land improvements	241,473	198,288
Building and improvements	1,563,048	1,332,153
Furniture and equipment	334,678	351,782
Vehicles	347,573	342,063
Total	\$ 3,017,432	\$ 2,754,946

The overall increase in capital assets of \$262,486 is due to capital outlays of \$644,172 exceeding depreciation expense of \$374,835 in the fiscal year.

Debt Administration

At June 30, 2003, the District had \$35,209 in general obligation bonds and \$39,319 in boiler replacement bonds outstanding. Of this total, \$19,342 is due within one year and \$55,186 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2003	Governmental Activities 2002
General obligation bonds:		
Elevator construction	\$ 35,209	\$ 48,031
Boiler replacement bonds	39,319	44,874
Total	\$ 74,528	\$ 92,905

On August 25, 1995, the District issued voted general obligation bonds for the purpose of acquiring and installing an elevator and wheelchair access ramp. The bonds were issued for a ten-year period with final maturity at December 1, 2005. The interest rate is 5.4 percent.

On May 21, 1999, the District unvoted general obligation bonds for the purpose of replacing a boiler. The bonds were issued for a ten-year period with the final maturity at June 1, 2009. The interest rate is 4.685 percent.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

At June 30, 2003, the District's overall legal debt margin was \$16,260,304, and an unvoted debt margin of \$181,061.

Current Financial Related Activities

The Galion City School District is embarking on very exciting times. In August of 2003, a 6.84 mill bond issue was passed to construct a new High School through the Ohio School Facilities Commission (OSFC) Expedited Local Partnership Plan (ELPP) program. The OSFC's state share percentage is 76%, with the District contributing 24% of the funding for the total project. It is anticipated that the District will receive funding from the OSFC for the remaining phases of construction in fiscal year 2004/05, moving the District into a Classroom Facilities Assistance Program status. This project is the first phase of a total district-wide building replacement plan that includes construction of a High School, a Middle School and two Elementary Schools, replacing the existing High School, Middle School and four Elementary Schools. This building project is anticipated to boost the local economy in a positive manner, along with the U.S. Route 30 four-lane expansion project through Crawford County, adjacent to the District boundaries.

Even though the taxpayers of the District generously passed a 7.73 mill 5-year operating levy in August of 2001, collectible for calendar years 2002 through 2006, the District is starting to see expenditures exceeding revenue on the five-year forecast. The District, like other districts in the area and the State, is struggling with the overall lagging economy.

Declining enrollments over the past ten years have been a concern and are being monitored closely. It is anticipated that the District will need to modify its educational delivery system to maximize personnel in the most efficient manner. Any additional revenues should not be treated as a windfall to expand programs but as an opportunity to extend the life of current programs.

The District is also facing future challenges in the area of state funding. The State of Ohio was found by the Ohio Supreme Court in March of 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

Concerns regarding the effects of House Bill 95, passed in June 2003, on the District finances are facing the Board and Administration also. House Bill 95 eliminated three-year averaging of average daily membership (ADM) counts, causing the District to feel the impact of losing approximately 50 students in fiscal year 2003. It is difficult to determine at this time the true impact to the District of the increased phase-out of the Personal Tangible Inventory Tax, since these returns are private and little information is available through the State Department of Taxation. The District does receive approximately \$115,000 annually from the \$10,000 exempt business tax which will be phased out over the next ten years.

Many new experiences and challenges are on the District's horizon. It is very important that the Board and Administration continue to carefully and prudently plan in order to provide the resources necessary to meet the needs of the students of Galion into the future.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Julie Henke, Treasurer, Galion City School District, 200 W. Church Street, Galion, Ohio 44833-1796.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,994,834
Receivables:	
Taxes	6,189,894
Accounts	15,203
Intergovernmental	256,077
Accrued interest	10,168
Prepayments	7,707
Materials and supplies inventory	23,999
Capital assets:	
Land	530,660
Depreciable capital assets, net	<u>2,486,772</u>
Capital assets, net.	<u>3,017,432</u>
 Total assets.	 <u>11,515,314</u>
 Liabilities:	
Accounts payable.	86,306
Accrued wages and benefits	1,655,377
Pension obligation payable.	322,534
Intergovernmental payable	49,903
Deferred revenue	3,995,220
Accrued interest payable	297
Long-term liabilities:	
Due within one year.	194,737
Due within more than one year	<u>1,007,603</u>
 Total liabilities	 <u>7,311,977</u>
 Net Assets:	
Invested in capital assets, net of related debt.	2,942,904
Restricted for:	
Capital projects	160,525
Debt service.	76
Unrestricted.	<u>1,099,832</u>
 Total net assets	 <u><u>\$ 4,203,337</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 7,574,072	\$ 439,787	\$ 273,921	\$ 68,400	\$ (6,791,964)
Special	2,084,575	-	563,265	-	(1,521,310)
Vocational	251,249	-	-	-	(251,249)
Other	461,684	2,420	-	-	(459,264)
Support services:					
Pupil	648,200	-	3,625	-	(644,575)
Instructional staff	940,729	-	208,331	-	(732,398)
Board of education	63,801	-	-	-	(63,801)
Administration	1,579,571	-	31,909	-	(1,547,662)
Fiscal	398,088	-	-	2,400	(395,688)
Operations and maintenance	1,466,455	7,276	-	208,930	(1,250,249)
Pupil transportation	660,287	-	321	-	(659,966)
Central	276,585	-	7,556	-	(269,029)
Operation of non-instructional services:					
Food service operations	629,120	333,635	266,103	-	(29,382)
Other non-instructional services	25,838	2,217	24,714	-	1,093
Extracurricular activities	687,461	159,836	-	-	(527,625)
Intergovernmental pass-through	90,432	-	77,165	-	(13,267)
Interest and fiscal charges	4,385	-	-	-	(4,385)
Total governmental activities	\$ 17,842,532	\$ 945,171	\$ 1,456,910	\$ 279,730	(15,160,721)
General Revenues:					
Property taxes levied for:					
General purposes					6,587,632
Grants and entitlements not restricted to specific programs					8,739,307
Investment earnings					57,411
Miscellaneous					50,662
Total general revenues					15,435,012
Change in net assets					274,291
Net assets at beginning of year					3,929,046
Net assets at end of year					<u>\$ 4,203,337</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,516,526	\$ 476,601	\$ 1,993,127
Receivables:			
Taxes	6,189,894	-	6,189,894
Accounts	3,072	12,131	15,203
Intergovernmental	599	255,478	256,077
Accrued interest	10,168	-	10,168
Interfund loans	143,500	-	143,500
Prepayments	7,707	-	7,707
Materials and supplies inventory	13,101	10,898	23,999
Restricted assets:			
Equity in pooled cash and cash equivalents	1,707	-	1,707
Total assets	\$ 7,886,274	\$ 755,108	\$ 8,641,382
Liabilities:			
Accounts payable	\$ 53,155	\$ 33,151	\$ 86,306
Accrued wages and benefits	1,511,024	144,353	1,655,377
Compensated absences payable	-	77,785	77,785
Pension obligation payable	229,100	15,540	244,640
Intergovernmental payable	47,473	2,430	49,903
Interfund loan payable	-	143,500	143,500
Deferred revenue	4,380,099	56,938	4,437,037
Total liabilities	6,220,851	473,697	6,694,548
Fund Balances:			
Reserved for encumbrances	205,552	83,908	289,460
Reserved for materials and supplies inventory	13,101	10,898	23,999
Reserved for prepayments	7,707	-	7,707
Reserved for property tax unavailable for appropriation	1,815,810	-	1,815,810
Reserved for bus purchase allowance	1,707	-	1,707
Unreserved, undesignated, reported in:			
General fund	(378,454)	-	(378,454)
Special revenue funds	-	67,175	67,175
Capital projects funds	-	119,430	119,430
Total fund balances	1,665,423	281,411	1,946,834
Total liabilities and fund balances	\$ 7,886,274	\$ 755,108	\$ 8,641,382

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 1,946,834
<i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,017,432
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 378,864	
Intergovernmental revenue	56,938	
Accrued interest	6,015	
Total		441,817
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,050,027)	
Pension obligation payable	(77,894)	
General obligation bonds payable	(35,209)	
Boiler replacement bonds payable	(39,319)	
Accrued interest payable	(297)	
Total		(1,202,746)
Net assets of governmental activities		\$ 4,203,337

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 6,439,946	\$ -	\$ 6,439,946
Tuition.	377,860	1,526	379,386
Charges for services.	-	335,852	335,852
Earnings on investments.	50,006	1,390	51,396
Extracurricular.	-	154,619	154,619
Other local revenues.	107,496	56,348	163,844
Other revenue	1,604	212,130	213,734
Intergovernmental - State.	8,739,307	294,525	9,033,832
Intergovernmental - Federal	-	1,223,826	1,223,826
Total revenue	<u>15,716,219</u>	<u>2,280,216</u>	<u>17,996,435</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,069,407	441,897	7,511,304
Special.	1,549,391	541,299	2,090,690
Vocational.	246,276	-	246,276
Other.	461,684	-	461,684
Support services:			
Pupil.	643,743	3,766	647,509
Instructional staff	700,638	223,046	923,684
Board of education	66,325	-	66,325
Administration.	1,517,920	28,489	1,546,409
Fiscal	387,140	577	387,717
Operations and maintenance.	1,592,827	51,498	1,644,325
Pupil transportation	646,546	1,633	648,179
Central.	270,468	2,083	272,551
Operation of non-instructional services:			
Food service operations	-	592,441	592,441
Other non-instructional services	21,149	24,104	45,253
Extracurricular activities.	471,884	184,555	656,439
Facilities acquisition and construction	228,906	5,821	234,727
Intergovernmental pass-through	-	88,370	88,370
Debt service:			
Principal retirement	-	18,377	18,377
Interest and fiscal charges	-	4,461	4,461
Total expenditures	<u>15,874,304</u>	<u>2,212,417</u>	<u>18,086,721</u>
Excess of revenues under expenditures	<u>(158,085)</u>	<u>67,799</u>	<u>(90,286)</u>
Other financing sources (uses):			
Transfers in	-	58,018	58,018
Transfers (out).	<u>(58,018)</u>	<u>-</u>	<u>(58,018)</u>
Total other financing sources (uses)	<u>(58,018)</u>	<u>58,018</u>	<u>-</u>
Net change in fund balances	(216,103)	125,817	(90,286)
Fund balances at beginning of			
year (Restated, see note 3)	1,880,863	144,696	2,025,559
Increase in reserve for inventory	663	10,898	11,561
Fund balances at end of year.	<u>\$ 1,665,423</u>	<u>\$ 281,411</u>	<u>\$ 1,946,834</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	(90,286)
<i>Amounts reported for governmental activities in the statement of activities are different because of the following:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		269,337
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(6,851)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		11,561
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		86,164
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		18,377
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		76
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(14,087)
Change in net assets of governmental activities	\$	<u>274,291</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 6,234,960	\$ 6,234,960	\$ 6,440,632	\$ 205,672
Tuition.	65,500	65,500	411,453	345,953
Earnings on investments.	70,000	70,000	45,853	(24,147)
Other local revenues	72,640	72,640	171,959	99,319
Other revenue	250,000	250,000	33,136	(216,864)
Intergovernmental - State	8,926,000	8,926,000	8,739,307	(186,693)
Intergovernmental - Federal.	800	800	-	(800)
Total revenue	<u>15,619,900</u>	<u>15,619,900</u>	<u>15,842,340</u>	<u>222,440</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,229,363	7,225,692	7,138,345	87,347
Special.	1,618,097	1,620,087	1,587,355	32,732
Vocational.	245,755	248,352	234,966	13,386
Other.	98,135	98,135	464,023	(365,888)
Support services:				
Pupil.	587,786	604,861	613,122	(8,261)
Instructional staff	885,593	886,093	699,209	186,884
Board of education	431,137	307,286	92,942	214,344
Administration.	1,440,280	1,444,180	1,473,362	(29,182)
Fiscal	345,127	345,127	360,696	(15,569)
Operations and maintenance.	1,881,561	1,849,761	1,686,699	163,062
Pupil transportation	587,583	611,390	648,969	(37,579)
Central.	308,423	310,576	299,561	11,015
Operation of non-instructional services	12,830	20,130	20,983	(853)
Extracurricular activities.	470,367	470,367	472,346	(1,979)
Facilities acquisition and construction.	260,000	260,000	248,840	11,160
Total expenditures	<u>16,402,037</u>	<u>16,302,037</u>	<u>16,041,418</u>	<u>260,619</u>
Excess of revenues over (under) expenditures.	<u>(782,137)</u>	<u>(682,137)</u>	<u>(199,078)</u>	<u>483,059</u>
Other financing sources (uses):				
Refund of prior year expenditure.	30,000	30,000	1,359	(28,641)
Refund of prior year receipt	-	-	(13,172)	(13,172)
Transfers (out)	(100,000)	(100,000)	(58,018)	41,982
Advances in.	-	-	74,656	74,656
Advances (out)	(50,000)	(50,000)	(218,156)	(168,156)
Proceeds from sale of capital assets.	100	100	-	(100)
Total other financing sources (uses)	<u>(119,900)</u>	<u>(119,900)</u>	<u>(213,331)</u>	<u>(93,431)</u>
Net change in fund balance	(902,037)	(802,037)	(412,409)	389,628
Fund balance at beginning of year.	817,265	817,265	817,265	-
Prior year encumbrances appropriated	830,438	830,438	830,438	-
Fund balance at end of year	<u>\$ 745,666</u>	<u>\$ 845,666</u>	<u>\$ 1,235,294</u>	<u>\$ 389,628</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 61,162	\$ 90,847
Receivables:		
Accounts	-	27
Total assets.	61,162	90,874
Liabilities:		
Accounts payable.	-	117
Due to students	-	90,757
Total liabilities	-	\$ 90,874
Net Assets:		
Held in trust for scholarships	61,162	
Total net assets	\$ 61,162	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 824
Gifts and contributions.	2,535
	3,359
Total additions.	3,359
Deductions:	
Scholarships awarded	4,253
	(894)
Change in net assets	(894)
Net assets at beginning of year.	62,056
	62,056
Net assets at end of year	\$ 61,162

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Galion City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1847 through the consolidation of existing land areas and districts. The District serves an area of approximately 32 square miles. It is located in Crawford County, and includes the City of Galion and Polk Township. The District is 248th largest in the State of Ohio (among 740 districts) in terms of enrollment. It is staffed by 87 non-certificated employees and 171 certificated full-time teaching personnel who provide services to 2,255 students and other community members. The District currently operates 6 instructional buildings and one garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic 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. For the District, this includes general operations, foods service, preschool 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 organizations' 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 have access to 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the COG)

The COG is a jointly governed organization among 15 districts and 1 county educational service center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member districts. The degree of control exercised by any district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Pioneer Career and Technology Center (PCTC)

The PCTC is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, OH 44875-0309.

PUBLIC ENTITY RISK POOLS

Wyandot-Crawford Health Benefit Plan

The District is a member of the Wyandot-Crawford Health Benefit Plan, which is a consortium established between the District, Colonel Crawford Local Schools, Carey Exempted Village Schools, Buckeye Central Local Schools, and Upper Sandusky Exempted Village Schools to act as a common risk management and insurance program. Refer to Note 11.B for further information on this insurance pool.

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program was established as an insurance purchasing pool and is governed by a three-member Board of Directors. The Executive Director of the Ohio School Boards Association, or his/her designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 11.C for further information on this group rating plan.

B. Fund Accounting

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

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

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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and the presentation of expenses versus expenditures. Fiduciary funds use the accrual basis of accounting.

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

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

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

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Crawford County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2003, investments were limited to STAR Ohio and nonnegotiable certificates of deposit. Investments in STAR Ohio are reported at fair value, which is based on quoted market prices. Nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. 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, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically authorized by board resolution or statutory requirements. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$50,006 which includes \$12,238 assigned from other District funds.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

G. Inventory

On 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. Inventories are accounted for using the consumption method.

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

H. Capital Assets

General capital assets are those related to government 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$2,500 during fiscal year 2003. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure assets.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 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 column on the Statement of Net Assets.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2003, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten years of current service and at least forty-five years of age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The 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, are reported as obligations of the funds. However, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

L. Fund Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, property tax unavailable for appropriation, and bus purchase allowance. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 16 for details.

Q. Interfund Activity

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

R. Nonpublic Schools

Within the District boundaries, nonpublic schools are operated by religious organizations. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the District, as directed by the nonpublic schools. The activity of these State monies by the District is reflected in the nonmajor governmental funds for financial reporting purposes.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

For 2003, the District changed the capitalization threshold for capital assets from \$500 to \$2,500. The effect on this change was to reduce general fixed assets as previously reported by \$1,762,013. (These assets are referred to as general capital assets in the current year).

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise and expendable trust funds have been reclassified and are now reported as part of the other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance			
June 30, 2002	\$ 1,861,461	\$ 157,143	\$ 2,018,604
Fund reclassifications	-	17,154	17,154
Implementation of GASB			
Interpretation No. 6	<u>19,402</u>	<u>(29,601)</u>	<u>(10,199)</u>
Restated fund balance,			
June 30, 2002	<u>\$ 1,880,863</u>	<u>\$ 144,696</u>	<u>\$ 2,025,559</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

Restated fund balance, June 30, 2002	\$ 2,025,559
GASB 34 adjustments:	
Long-term (deferred) assets	355,653
Capital assets	2,754,946
Accrued interest payable	(373)
Long-term liabilities	<u>(1,206,739)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 3,929,046</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 3,567
Termination Benefits	77,790
Disadvantaged Pupil Impact Aid	51
Title VI	405
EHA Preschool	23

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash pool used by all funds. Statutes require the classification of monies held by the District into three categories.

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

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

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

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days, from the date of purchase, in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements".

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$1,652,162 and the bank balance was \$1,970,143. The amounts include \$1,698,000 in certificates of deposit. Of the bank balance:

1. \$398,000 was covered by federal depository insurance; and
2. \$1,572,143 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions. These securities are not held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC. Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the fair value of funds on deposit with STAR Ohio was \$494,681.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classifications of cash and investments on the basic financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 2,146,843	\$ -
Investment in STAR Ohio	<u>(494,681)</u>	<u>494,681</u>
GASB Statement No. 3	<u>\$ 1,652,162</u>	<u>\$ 494,681</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<u>General</u>	\$ 143,500	\$ -
 <u>Non-Major Governmental Funds</u>		
Special Education (Title VI-B)	-	25,000
Title I	-	22,000
Title VI	-	2,500
Drug-Free School Grant	-	1,500
Reducing Class Size	-	92,500
Total Non-Major Governmental Funds	-	143,500
 Total All Funds	 \$ 143,500	 \$ 143,500

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	<u>Transfers-Out</u>	<u>Transfers-In</u>
General	\$58,018	\$ -
 <u>Non-Major Governmental Funds</u>		
Termination Benefits	-	35,180
Bond Retirement	-	22,838
Total Non-Major Governmental Funds	-	58,018
 Total All Funds	 \$ 58,018	 \$ 58,018

NOTE 6 - PROPERTY TAXES

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Crawford, Richland and Morrow Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$1,815,810 in the general fund. This amount has been recorded as revenue.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES (Continued)

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 145,034,310	83.27	\$ 147,946,600	81.71
Public Utility Personal	5,046,040	2.90	5,112,100	2.82
Tangible Personal Property	<u>24,094,118</u>	<u>13.83</u>	<u>28,002,560</u>	<u>15.47</u>
Total	<u>\$ 174,174,468</u>	<u>100.00</u>	<u>\$ 181,061,260</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 61.63		\$ 60.73	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Property taxes	\$ 6,189,894
Accounts	15,203
Intergovernmental	256,077
Accrued interest	<u>10,168</u>
Total	<u>\$ 6,471,342</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to fund reclassifications, changes in the District's capital asset policy (see Note 2.H. for detail) and land and other amounts that were not reported in the prior year:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance 6/30/02	Adjustments	Restated Balance 6/30/02
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 530,660	\$ 530,660
Total capital assets, not being depreciated	<u>-</u>	<u>530,660</u>	<u>530,660</u>
Capital assets, being depreciated:			
Land improvements	750,475	(219,060)	531,415
Buildings and improvements	6,074,520	109,872	6,184,392
Furniture and equipment	2,527,311	(1,869,541)	657,770
Vehicles	675,053	137,841	812,894
Total capital assets, being depreciated	<u>10,027,359</u>	<u>(1,840,888)</u>	<u>8,186,471</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(5,962,185)</u>	<u>(5,962,185)</u>
Governmental activities capital assets, net	<u>\$ 10,027,359</u>	<u>\$ (7,272,413)</u>	<u>\$ 2,754,946</u>

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 06/30/02	Additions	Deductions	Balance 06/30/03
<i>Capital assets, not being depreciated:</i>				
Land	\$ 530,660	\$ -	\$ -	\$ 530,660
Total capital assets, not being depreciated	<u>530,660</u>	<u>-</u>	<u>-</u>	<u>530,660</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	531,415	80,327	-	611,742
Buildings and improvements	6,184,392	355,723	-	6,540,115
Furniture and equipment	657,770	64,200	(15,601)	706,369
Vehicles	812,894	143,922	(54,379)	902,437
Total capital assets, being depreciated	<u>8,186,471</u>	<u>644,172</u>	<u>(69,980)</u>	<u>8,760,663</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(333,127)	(37,142)	-	(370,269)
Buildings and improvements	(4,852,239)	(124,828)	-	(4,977,067)
Furniture and equipment	(305,988)	(74,453)	8,750	(371,691)
Vehicles	(470,831)	(138,412)	54,379	(554,864)
Total accumulated depreciation	<u>(5,962,185)</u>	<u>(374,835)</u>	<u>63,129</u>	<u>(6,273,891)</u>
Governmental activities capital assets, net	<u>\$ 2,754,946</u>	<u>\$ 269,337</u>	<u>\$ (6,851)</u>	<u>\$ 3,017,432</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 – CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 123,021
Special	9,082
Vocational	3,408
 <u>Support Services:</u>	
Pupil	1,816
Instructional staff	8,441
Administration	16,285
Fiscal	2,734
Operations and maintenance	42,976
Pupil transportation	117,493
Central	723
Noninstructional operations	2,791
Extracurricular activities	38,392
Food service operations	<u>7,673</u>
 Total depreciation expense	 <u>\$ 374,835</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	Balance Outstanding <u>06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/03</u>	Amounts Due in <u>One Year</u>
General obligation bonds	\$ 48,031	\$ -	\$ (12,822)	\$ 35,209	\$ 13,524
Boiler replacement bonds	44,874	-	(5,555)	39,319	5,818
Compensated absences	<u>1,081,780</u>	<u>81,211</u>	<u>(35,179)</u>	<u>1,127,812</u>	<u>175,395</u>
Total governmental activities	<u>\$ 1,174,685</u>	<u>\$ 81,211</u>	<u>\$ (53,556)</u>	<u>\$ 1,202,340</u>	<u>\$ 194,737</u>

Elevator Construction General Obligation Bonds - On August 25, 1995, the District issued \$115,000 in voted general obligation bonds for the purpose of acquiring and installing an elevator and wheelchair access ramp. The bonds were issued for a ten-year period with final maturity at December 1, 2005. The bonds will be retired from the debt service fund. The interest rate is 5.4 percent.

Boiler Replacement Bonds – On May 21, 1999, the District issued \$60,000 in unvoted general obligation bonds for the purpose of replacing a boiler. The bonds were issued for a ten-year period with the final maturity at June 1, 2009. The bonds will be retired from the debt service fund. The interest rate is 4.685 percent.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2003, are as follows:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 19,342	\$ 3,496	\$ 22,838
2005	20,358	2,480	22,838
2006	13,805	1,410	15,215
2007	6,686	908	7,594
2008	7,334	591	7,925
2009	<u>7,003</u>	<u>259</u>	<u>7,262</u>
Total	<u>\$ 74,528</u>	<u>\$ 9,144</u>	<u>\$ 83,672</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$16,260,304 and an unvoted debt margin of \$181,061.

NOTE 10 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 47 days for classified employees and 60 days for certified employees.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is subject to various risks of loss related to torts, theft of, or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District's maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles.

Vehicle policies include liability coverage for bodily injury and property damage and uninsured motorists. The liability limits are \$2,000,000 for each accident and medical coverage of \$50,000 per person.

Real property and contents are fully insured. Limits of insurance on property and equipment are \$42,198,200.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 – RISK MANAGEMENT – (Continued)

The umbrella liability policy is \$2,000,000 for each occurrence and \$5,000,000 aggregate.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from prior year.

B. Employee Health Insurance

The District has joined together with Carey Exempted Village District, Colonel Crawford Local District, Buckeye Central Local District, and Upper Sandusky Exempted Village District to form the Wyandot-Crawford Health Benefit Plan (WCHBP), a public entity shared risk pool, operating as a common risk management and insurance program for the member Districts. The plan was organized to provide benefit coverage for employees and dependents and designated beneficiaries of such employees.

The Huntington National Bank serves as trustee for the WCHBP. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

C. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the immediate Past President of the OSBA. The Executive Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The firm of Gates-McDonald & Company provides administrative, cost control and actuarial services to the GRP.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$271,246, \$254,041, and \$258,660, respectively; 45.32% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$148,308, represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The 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, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,168,379, \$1,116,494, and \$1,042,401, respectively; 82.52% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$195,204, represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$83,456 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$141,413 during the 2003 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (412,409)
Net adjustment for revenue accruals	(126,121)
Net adjustment for expenditure accruals	(115,825)
Net adjustment for other sources/uses	155,313
Adjustment for encumbrances	<u>282,939</u>
GAAP basis	<u>\$ (216,103)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES - (Continued)

C. State 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.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2002	\$ 9,363	\$ -
Current year set-aside requirement	298,220	298,220
Current year offsets	-	-
Qualifying disbursements	<u>(617,571)</u>	<u>(403,249)</u>
Total	<u>\$ (309,988)</u>	<u>\$ (105,029)</u>
Cash balance carried forward to FY 2004	<u>\$ (309,988)</u>	<u>\$ -</u>

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

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for school bus purchases	<u>\$ 1,707</u>
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**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$34,224	\$0	\$34,224
School Breakfast	044024-05PU-2002 044024-05PU-2003	10.553	8,990 31,639	0 0	8,990 31,639	0 0
Total School Breakfast			<u>40,629</u>	<u>0</u>	<u>40,629</u>	<u>0</u>
National School Lunch Program	044024-LLN4-2002 044024-LLP4-2002 044024-LLP4-2003	10.555	22,188 23,230 163,907	0 0 0	22,188 23,230 163,907	0 0 0
Total National School Lunch Program			<u>209,325</u>	<u>0</u>	<u>209,325</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>249,954</u>	<u>34,224</u>	<u>249,954</u>	<u>34,224</u>
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	044024-6BEC-2002 F 044024-6BSF-2002 P 044024-6BSF-2003 P	84.027	0 9,054 210,140	0 0 0	4 28,775 199,634	0 0 0
Total Special Education Grants to States			<u>219,194</u>	<u>0</u>	<u>228,413</u>	<u>0</u>
Special Education - Preschool Grant	044024-PGS1-2002 P 044024-PGS1-2003 P	84.173	0 13,260	0 0	1,398 13,260	0 0
Total Special Education - Preschool Grant			<u>13,260</u>	<u>0</u>	<u>14,658</u>	<u>0</u>
Total Special Education Cluster			<u>232,454</u>	<u>0</u>	<u>243,071</u>	<u>0</u>
Title I Grants to Local Educational Agencies	044024-C1S1-2002 044024-C1S1-2003	84.010	53,764 378,149	0 0	78,240 348,277	0 0
Total Title I Grants to Local Educational Agencies			<u>431,913</u>	<u>0</u>	<u>426,517</u>	<u>0</u>
Eisenhower Professional Development State Grants	044024-MSS1-2002	84.281	<u>(4,623)</u>	<u>0</u>	<u>9,975</u>	<u>0</u>
Innovative Education Program Strategies	044024-C2-S1-2001 044024-C2-S1-2002 044024-C2-S1-2003	84.298	0 0 11,875	0 0 0	47 455 12,096	0 0 0
Total Innovative Education Program Strategies			<u>11,875</u>	<u>0</u>	<u>12,598</u>	<u>0</u>
Goals 2000 - State and Local Education Systematic Improvement	044024-G2S2-2002	84.276	<u>0</u>	<u>0</u>	<u>1,248</u>	<u>0</u>
Safe & Drug-Free Schools and Communities-State Grant	044024-DRS1-2002 044024-DRS1-2003	84.186	0 14,276	0 0	800 12,956	0 0
Total Safe & Drug-Free Schools and Communities-State Grant			<u>14,276</u>	<u>0</u>	<u>13,756</u>	<u>0</u>
Reducing Class Size	044024-CR-S1-2001 044024-CR-S1-2002	84.340	0 0	0 0	1,894 23,426	0 0
Total Reducing Class Size			<u>0</u>	<u>0</u>	<u>25,320</u>	<u>0</u>
Improving Teacher Quality State Grants	044024-TRS1-2003	84.367	<u>66,723</u>	<u>0</u>	<u>147,233</u>	<u>0</u>
Technology Literacy Challenge Fund Grant	044024-TJS1-2003	84.318	<u>11,738</u>	<u>0</u>	<u>11,738</u>	<u>0</u>
School Renovation Grant	004024-ATS2-2002 044024-ATS3-2002	84.352A	3,232 16,585	0 0	3,232 16,585	0 0
Total School Renovation Grant			<u>19,817</u>	<u>0</u>	<u>19,817</u>	<u>0</u>
Comprehensive School Reform Demonstration	004024-RFCC-2003	84.332	<u>21,639</u>	<u>0</u>	<u>26,687</u>	<u>0</u>
<i>Passed Through Pioneer Joint Vocational:</i> Vocational Education-Basic Grants to States	044024-VE-S1-2003	84.048	<u>316</u>	<u>0</u>	<u>316</u>	<u>0</u>
Total U.S. Department of Education			<u>806,128</u>	<u>0</u>	<u>938,276</u>	<u>0</u>
<u>UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	34-6400544	93.778	<u>39,472</u>	<u>0</u>	<u>1,674</u>	<u>0</u>
Total U.S. Department of Job and Family Services			<u>39,472</u>	<u>0</u>	<u>1,674</u>	<u>0</u>
Total Federal Awards			<u>\$1,095,554</u>	<u>\$34,224</u>	<u>\$1,189,904</u>	<u>\$34,224</u>

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

To the Board of Education:

We have audited the basic financial statements of Galion City School District, Crawford County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated December 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 15, 2003.

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Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Galion City School District
Crawford County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
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This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 15, 2003



Auditor of State Betty Montgomery

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

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

To the Board of Education:

Compliance

We have audited the compliance of Galion City School District, Crawford County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to the major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

December 15, 2003

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010 – Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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GALION CITY SCHOOL DISTRICT

CRAWFORD 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
JANUARY 20, 2004**