GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying general-purpose financial statements of the Gorham Fayette Local School District, Fulton County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Gorham Fayette Local School District, Fulton County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003 on our consideration of the Government'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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 19, 2003

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GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	$865,434	$71,668	$189,515	$23,318
Receivables:				
Taxes	751,219		455,575	
Accounts	4,148			
Intergovernmental		2,239		
Accrued Interest	458			
Income Tax	134,763			
Materials and Supplies Inventory	1,351			
Prepaid Items	16,946			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	20,872			
Fixed Assets				
Accumulated Depreciation				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations				
Amount to be Provided From General Government Resources				
Total Assets and Other Debits	**$1,795,191**	**$73,907**	**$645,090**	**$23,318**

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$9,404	$34,782			$1,194,121
				1,206,794
				4,148
				2,239
				458
				134,763
4,690				6,041
				16,946
				20,872
53,791		$6,273,150		6,326,941
(37,785)				(37,785)
			$189,515	189,515
			2,281,770	2,281,770
$30,100	**$34,782**	**$6,273,150**	**$2,471,285**	**$11,346,823**

(Continued)

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003
(Continued)

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$14,093	$1,871		
Accrued Wages and Benefits	335,187	12,212		
Compensated Absences Payable	10,507			
Intergovernmental Payable	54,690	1,500		
Deferred Revenue	629,741	24	$432,424	
Due to Students				
General Obligation Bonds Payable				
Total Liabilities	1,044,218	15,607	432,424	
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	26,583	5,849		
Reserved for Inventory	1,351			
Reserved for Prepaid Items	16,946			
Reserved for Debt Service Principal			189,515	
Reserved for Endowment				
Reserved for Property Taxes	121,478		23,151	
Reserved for Budget Stabilization	20,872			
Unreserved, Undesignated	563,743	52,451		$23,318
Total Fund Equity and Other Credits	750,973	58,300	212,666	23,318
Total Liabilities, Fund Equity and Other Credits	**$1,795,191**	**$73,907**	**$645,090**	**$23,318**

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
				$15,964
$10,079				357,478
4,162			$271,187	285,856
6,066			29,400	91,656
				1,062,189
	$19,200			19,200
			2,170,698	2,170,698
20,307	19,200		2,471,285	4,003,041
		$6,273,150		6,273,150
2,446				2,446
7,347				7,347
				32,432
				1,351
				16,946
				189,515
	15,000			15,000
				144,629
				20,872
	582			640,094
9,793	15,582	6,273,150		7,343,782
$30,100	**$34,782**	**$6,273,150**	**$2,471,285**	**$11,346,823**

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Fund Types	
	General	**Special Revenue**
Revenues:		
Intergovernmental	$2,197,715	$358,307
Interest	19,690	
Tuition and Fees	34,262	
Rent	822	
Extracurricular Activities		64,396
Gifts and Donations	2,750	5
Income Tax	358,918	
Property and Other Local Taxes	1,084,518	
Miscellaneous	287,609	699
Total Revenues	3,986,284	423,407
Expenditures:		
Instruction:		
Regular	1,785,303	98,920
Special	378,203	73,310
Vocational	74,791	
Other	28,445	
Support services:		
Pupils	189,959	34,416
Instructional Staff	214,738	48,286
Board of Education	85,366	
Administration	399,499	3,529
Fiscal	155,490	
Operation and Maintenance of Plant	356,795	
Pupil Transportation	170,741	3,641
Central	25,374	3,283
Non-Instructional Services	2,000	147,403
Extracurricular activities	87,648	51,732
Capital Outlay	11,690	
Debt Service		
Debt Service - Principal		
Debt Service - Interest		
Total Expenditures	3,966,042	464,520
Excess of Revenues Over (Under) Expenditures	20,242	(41,113)
Other Financing Sources and Uses		
Operating Transfers In		1,421
Refund of Prior Year Expenditures	6,182	
Other Financing Sources	233	
Operating Transfers Out	(4,660)	(1,421)
Refund of Prior Year Receipts		(1,031)
Total Other Financing Sources (Uses)	1,755	(1,031)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	21,997	(42,144)
Fund Balance at Beginning of Year	728,976	100,444
Fund Balance at End of Year	**$750,973**	**$58,300**

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		
Debt Service	Capital Projects	Totals (Memorandum) Only)
$21,861	$117	$2,578,000
	9	19,699
		34,262
		822
		64,396
		2,755
		358,918
202,404		1,286,922
		288,308
224,265	126	$4,634,082
		1,884,223
		451,513
		74,791
		28,445
		224,375
	5,834	268,858
		85,366
		403,028
4,312		159,802
		356,795
		174,382
		28,657
		149,403
		139,380
	6,082	17,772
75,000		75,000
102,926		102,926
182,238	11,916	4,624,716
42,027	(11,790)	9,366
		1,421
		6,182
		233
		(6,081)
		(1,031)
		724
42,027	(11,790)	10,090
170,639	35,108	1,035,167
$212,666	**$23,318**	**$1,045,257**

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	General		
	Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$1,974,297	$2,197,715	$223,418
Interest	50,000	20,028	(29,972)
Tuition and Fees	32,100	34,137	2,037
Rent	1,000	973	(27)
Extracurricular Activities			
Gifts and Donations	8,000	2,750	(5,250)
Income Tax	355,000	349,698	(5,302)
Property and Other Local Taxes	1,005,000	1,056,063	51,063
Miscellaneous	278,020	283,586	5,566
Total Revenues	3,703,417	3,944,950	241,533
Expenditures:			
Current:			
Instruction:			
Regular	1,773,716	1,760,612	13,104
Special	382,013	377,453	4,560
Vocational	76,564	75,205	1,359
Other	32,650	28,083	4,567
Support services:			
Pupils	193,342	186,510	6,832
Instructional Staff	220,933	211,504	9,429
Board of Education	93,340	91,915	1,425
Administration	406,137	400,308	5,829
Fiscal	166,752	159,798	6,954
Operation and Maintenance of Plant	370,880	354,592	16,288
Pupil Transportation	240,999	173,239	67,760
Central	27,056	25,947	1,109
Non-Instructional Services	2,000	2,000	
Extracurricular activities	91,120	87,538	3,582
Capital Outlay	12,900	11,690	1,210
Debt Service:			
Principal			
Interest			
Total Expenditures	4,090,402	3,946,394	144,008
Excess of Revenues Over (Under) Expenditures	(386,985)	(1,444)	385,541
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	300		(300)
Refund of Prior Year Expenditures	1,000	8,633	7,633
Other Financing Sources	400	233	(167)
Operating Transfers Out	(10,000)	(4,660)	5,340
Refund of Prior Year Receipts	(500)		500
Advances Out	(5,000)		5,000
Total Other Financing Sources (Uses)	(13,800)	4,206	18,006
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(400,785)	2,762	403,547
Fund Balances at Beginning of Year	822,248	822,248	
Prior Year Encumbrances Appropriated	21,420	21,420	
Fund Balance at End of Year	**$442,883**	**$846,430**	**$403,547**

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
$364,789	$361,062	($3,727)	$21,000	$21,861	$861
63,800	64,396	596			
200	5	(195)			
			176,177	199,386	23,209
699	699				
429,488	426,162	(3,326)	197,177	221,247	24,070
120,294	99,957	20,337			
78,703	74,247	4,456			
34,819	34,819				
60,303	49,545	10,758			
3,969	1,951	2,018			
			4,500	4,312	188
6,152	3,291	2,861			
6,961	3,283	3,678			
149,303	147,403	1,900			
62,320	53,208	9,112			
			75,000	75,000	
			102,926	102,926	
522,824	467,704	55,120	182,426	182,238	188
(93,336)	(41,542)	51,794	14,751	39,009	24,258
1,421	1,421				
(1,421)	(1,421)				
(1,031)	(1,031)				
(1,031)	(1,031)				
(94,367)	(42,573)	51,794	14,751	39,009	24,258
92,059	92,059		150,506	150,506	
14,460	14,460				
$12,152	**$63,946**	**$51,794**	**$165,257**	**$189,515**	**$24,258**

(Continued)

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

	Capital Projects		
	Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$117	$117	
Interest	100	9	($91)
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations			
Income Tax			
Property and Other Local Taxes			
Miscellaneous			
Total Revenues	217	126	(91)
Expenditures:			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Other			
Support services:			
Pupils			
Instructional Staff	5,902	5,834	68
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation	23,251		23,251
Central			
Non-Instructional Services			
Extracurricular activities			
Capital Outlay	6,082	6,082	
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	35,235	11,916	23,319
Excess of Revenues Over (Under) Expenditures	(35,018)	(11,790)	23,228
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Other Financing Sources			
Operating Transfers Out			
Refund of Prior Year Receipts			
Advances Out			
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(35,018)	(11,790)	23,228
Fund Balances at Beginning of Year	34,119	34,119	
Prior Year Encumbrances Appropriated	990	990	
Fund Balance at End of Year	**$91**	**$23,319**	**$23,228**

The notes to the general-purpose financial statements are an integral part of this statement.

Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)
$2,360,203	$2,580,755	$220,552
50,100	20,037	(30,063)
32,100	34,137	2,037
1,000	973	(27)
63,800	64,396	596
8,200	2,755	(5,445)
355,000	349,698	(5,302)
1,181,177	1,255,449	74,272
278,719	284,285	5,566
4,330,299	4,592,485	262,186
1,894,010	1,860,569	33,441
460,716	451,700	9,016
76,564	75,205	1,359
32,650	28,083	4,567
228,161	221,329	6,832
287,138	266,883	20,255
93,340	91,915	1,425
410,106	402,259	7,847
171,252	164,110	7,142
370,880	354,592	16,288
270,402	176,530	93,872
34,017	29,230	4,787
151,303	149,403	1,900
153,440	140,746	12,694
18,982	17,772	1,210
75,000	75,000	
102,926	102,926	
4,830,887	4,608,252	222,635
(500,588)	(15,767)	484,821
1,421	1,421	
300		(300)
1,000	8,633	7,633
400	233	(167)
(11,421)	(6,081)	5,340
(1,531)	(1,031)	500
(5,000)		5,000
(14,831)	3,175	18,006
(515,419)	(12,592)	502,827
1,098,932	1,098,932	
36,870	36,870	
$620,383	**$1,123,210**	**$502,827**

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	**Nonexpendable Trust**	**Totals (Memorandum Only)**
Operating Revenues:			
Sales	$82,136		$82,136
Interest		$221	221
Other Revenues	170		170
Total Operating Revenues	82,306	221	82,527
Operating Expenses			
Salaries	48,743		48,743
Fringe Benefits	24,985		24,985
Purchased Services	1,212		1,212
Materials and Supplies	72,279		72,279
Depreciation	2,180		2,180
Other	599	188	787
Total Operating Expenses	149,998	188	150,186
Operating Income (Loss)	(67,692)	33	(67,659)
Non-Operating Revenues			
Federal Donated Commodities	21,516		21,516
Interest	50		50
Federal and State Subsidies	42,135		42,135
Other	1,474		1,474
Total Non-Operating Revenues	65,175		65,175
Income (Loss) Before Operating Transfers	(2,517)	33	(2,484)
Operating Transfers-In	4,500	160	4,660
Net Income	1,983	193	2,176
Retained Earnings/Fund Balances at Beginning of Year	5,364	15,389	20,753
Retained Earnings/Fund Balances at End of Year	7,347	15,582	22,929
Contributed Capital at Beginning of Year	2,446		2,446
Capital Contributions During the Year			
Contributed Capital at End of Year	2,446		2,446
Total Fund Equity at End of Year	**$9,793**	**$15,582**	**$25,375**

The notes to the general-purpose financial statements are an integral part of this statement.

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Totals (Memorandum Only)
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Sales	$82,136		$82,136
Other Cash Receipts	170		170
Cash Payments to Suppliers for Goods and Service	(53,487)		(53,487)
Cash Payments for Contract Services	(51)		(51)
Cash Payments for Employee Services	(47,160)		(47,160)
Cash Payments for Employee Benefits	(25,210)		(25,210)
Other Cash Payments	(599)	($188)	(787)
Net Cash Used by Operating Activities	(44,201)	(188)	(44,389)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	42,135		42,135
Operating Transfer In	4,500	160	4,660
Net Cash Provided by Noncapital Financing Activities	46,635	160	46,795
Cash Flows from Investing Activities:			
Interest Received	50	221	271
Net Increase in Cash and Cash Equivalents	2,484	193	2,677
Cash and Cash Equivalents at Beginning of Year	6,920	15,389	22,309
Cash and Cash Equivalents at End of Year	**$9,404**	**$15,582**	**$24,986**

(Continued)

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	**Nonexpendable Trust**	**Totals (Memorandum Only)**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	($67,692)	$33	($67,659)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	2,180		2,180
Donated Commodities Used During the Year	21,516		21,516
Nonexpendable Trust Interest		(221)	(221)
(Increase) Decrease in Assets:			
Material and Supplies Inventory	(916)		(916)
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	1,347		1,347
Intergovernmental Payable	450		450
Deferred Revenue	(1,808)		(1,808)
Accrued Wages and Benefits	722		722
Total Adjustments	23,491	(221)	23,270
Net Cash Used by Operating Activities	**($44,201)**	**($188)**	**($44,389)**

Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2003:	
Cash and Cash Equivalents - Trust and Agency Funds	$34,782
Less: Agency Funds	(19,200)
Cash and Cash Equivalents - Nonexpendable Trust Funds	**$15,582**

Non-Cash Capital Transaction

During fiscal year 2003, the general fund purchased a fixed asset with a value of $1,474 for the food service enterprise fund.

The notes to the general-purpose financial statements are an integral part of this statement.

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Gorham Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's instructional/support facilities.

The Reporting Entity

The District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility, which required incorporation into the financial statements.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14, 15, and 16 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise and nonexpendable trust funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The enterprise fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types and agency funds. The full accrual basis of accounting is followed by the enterprise and nonexpendable trust funds. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. 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 fiscal 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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 on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

B. Fund Accounting

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reporting in other funds. The restrictions associated with each class of funds are as follows:

1. GOVERNMENTAL FUNDS

The following are the funds through which most Board of Education functions are typically financed.

General Fund - The fund used to account for all financial resources except those required to be segregated and accounted for in other funds. The General Fund is the general operating fund of the District.

Special Revenue Funds - The funds used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

Capital Projects Funds - The funds used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

2. PROPRIETARY FUNDS

The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. FIDUCIARY FUNDS

The funds used to account for assets not owned by the Board, but held for a separate entity.

Trust Funds - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Nonexpendable Trust Funds.

Agency Funds - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. ACCOUNT GROUPS

General Fixed Assets - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

General Long-Term Obligations - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant, Eisenhower Math-Science Grant, and Federal Preschool Grant special revenue funds pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds is included within the District's reporting entity for which the "appropriated budget" is adopted.

The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits 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. A public hearing is publicized and conducted to obtain taxpayers' comments. The purpose of this Budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the Board adopted budget is filed with the County Budget Commission for 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. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation

measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary, budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.

6. 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.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.

2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types for the year ended June 30, 2003 follows:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses

	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	$ 2,762	$ (42,573)	$ 39,009	$ (11,790)
Revenue Accruals	41,335	(2,755)	3,018	-
Expenditure Accruals	(59,522)	(4,536)	-	-
Other Sources/Uses	(2,451)	-	-	-
Encumbrances	39,873	7,720	-	-
GAAP Basis	$ 21,997	$ (42,144)	$ 42,027	$ (11,790)

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During fiscal year 2003, investments were limited to an overnight repurchase agreement and STAR Ohio. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to $19,690, interest in the amount of $280 was credited to other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. Inventory in Governmental Funds consists of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Property, Plant and Equipment

1. <u>General Fixed Assets Account Group</u>

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction of general fixed assets is also not capitalized. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than $500. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for assets in General Fixed Assets Account Group.

Public Domain ("infrastructure") general fixed assets consisting of curbs, gutters, sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

2. Proprietary Funds

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over an estimated useful life of seven to twenty years.

H. Intergovernmental Revenues

In Governmental Funds, entitlements and non-reimbursable grants are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary Fund operations are recognized as revenue when measurable and earned. This District currently participates in various state and federal programs, categorized as follows:

Entitlements

General Fund
State Foundation Program
School Bus Purchase Reimbursement

Non-Reimbursable Grants

Special Revenue Funds
Educational Management Information Systems (EMIS)
School Improvement Incentive
Public School Preschool
Onenet Connectivity Subsidy
SchoolNet Professional Development
Ohio Reads
Ohio Schools That Work Grant
Safe School Teen Line
Eisenhower Grant
Title VI-B
Title III
Title I
Title VI
Title V Innovative Program
Drug Free Grant
Preschool Disability Grant
Continuous Improvement Plan

Title VI – R
Title II-A
Title II-D
Rural Education Achievement Program
Assistance Technology Infusion Project

Capital Projects Funds
SchoolNet
School Net Plus
Technology Equity

Reimbursable Grants

Enterprise Fund
National School Lunch Program
Government Donated Commodities

I. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.

3. Short-term interfund loans are reflected as interfund receivables and interfund payables.

J. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

Sick leave benefits are accrued as a liability using the vested method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future.

The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted by state statute to be set-aside by the School District to create a reserve for the budget stabilization. See Note 17 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

L. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenue and expenditures. The reserve for principal endowments signifies the legal restrictions on the use of trust principal.

M. Estimates

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

N. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For the other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligation Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

3. ACCOUNTABILITY

At June 30, 2003, the Title I Fund had a deficit fund balance of $923, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two-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 monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and

6. The Ohio State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase 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 School 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 risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits: At year-end, the carrying amount of the District's deposits was $611,366 and the bank balance was $680,800. Of the bank balance, $129,888 was covered by Federal Depository Insurance; and $550,912 was secured by pooled collateral that was held in the pledging financial institution's name. All State statutory requirements for the deposit of money had been followed.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. 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 or agent but not in the district's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. During fiscal year 2003, investments were limited to Star Ohio with a carrying amount and fair value as of June 30, 2003 of $603,627, and a repurchase agreement, a Category 3 investment.

The classification of cash and cash equivalents, and investments on the combined 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 cash equivalents and investments on the combined financial statements and the classification of deposits and investments per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	$ 1,214,993	$ -
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(603,627)	603,627
GASB Statement 3	$ 611,366	$ 603,627

5. PROPERTY TAXES

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed at 25 percent of true value for capital assets and 24 percent of true value of inventory. Pertinent tangible personal property tax dates are:

Collection Dates	April and September of the current year
Lien Date	December 31 of the year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value. Pertinent public utility real and tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

The County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in February and August.

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in June and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2003. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2003.

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

	2002 Second Half Collections Amount	2003 First Half Collections Amount
Agricultural/Residential Real Estate	$ 25,424,730	$ 30,177,930
Commercial/Industrial Real Estate	3,187,870	3,685,230
Public Utility Personal Property & Real Estate	2,178,350	1,854,320
General Personal Property	3,441,110	4,202,750
Totals	$ 34,232,060	$ 39,920,230
Tax rate per $1,000 of assessed valuation	$ 46.46	$ 53.46

6. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

Asset Category	Balance at 06/30/02	Additions	Disposals	Adjustment	Balance at 06/30/03
Land and Improvements	$ 158,623	$ 5,756	$ -	$ -	$ 164,379
Buildings and Improvements	1,724,180	6,837	-	2,691,252	4,422,269
Furniture and Equipment	964,166	50,451	26,425	-	988,192
Vehicles	365,077	-	-	-	365,077
Construction-In-Progress	2,691,252	-	-	(2,691,252)	-
Text and Library Books	322,925	10,308	-	-	333,233
Totals	$ 6,226,223	$ 73,352	$ 26,425	$ -	$ 6,273,150

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Asset Category	Balance at 06/30/03
Furniture and Equipment	$ 53,791
Less: Accumulated Depreciation	(37,785)
Net Fixed Assets	$ 16,006

7. LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Principal Outstanding 06/30/02	Additions	Reductions	Principal Outstanding 06/30/03
General Obligation Bonds	$ 2,234,543	$ 11,155	$ 75,000	$ 2,170,698
Pension Obligation	29,830	-	430	29,400
Compensated Absences	300,519	-	29,332	271,187
Total Long-Term Obligations	$ 2,564,892	$ 11,155	$ 104,762	$ 2,471,285

Debt outstanding at June 30, 2003 consisted of a separate issue of construction and improvement bonds. The issue includes both current interest bonds, par value of $2,300,000 and capital appreciation bonds, par value of $315,000. These bonds were issued in 1998 and will mature in 2024. Interest rates for the current interest bonds range from 3.85 percent to 5.00 percent.

The capital appreciation bonds mature on December 1, 2010, 2011 and 2012, with stated interest rate of 19.5 percent, at a redemption price equal to 100 percent of the par value. The annual accretion of interest is computed semiannually. The accretion of interest on the capital appreciation bonds reported in the General Long-Term Obligations Account Group at June 30, 2003 was $40,990.

Total expenditures for interest for the above debt for the period ended June 30, 2003 was $102,926.

The scheduled payments of principal and interest on debt outstanding at June 30, 2003 are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2004	$ 80,000	$ 99,690	$ 179,690
2005	80,000	96,310	176,310
2006	75,000	92,998	167,998
2007	85,000	89,536	174,536
2008	90,000	85,707	175,707
2009-2013	260,698	674,156	934,854
2014-2018	575,000	305,625	880,625
2019-2023	745,000	142,375	887,375
2024	180,000	4,500	184,500
Total	$ 2,170,698	$ 1,590,897	$ 3,761,595

8. COMPENSATED ABSENCES

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a certified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 55 days. The amount paid to a classified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 45 days.

At June 30, 2003, the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligation Account Group was $10,507 and $271,187, respectively. The liability for compensated absences in the proprietary funds at June 30, 2003 was $4,162.

9. RETIREMENT INCENTIVE

The Board of Education shall pay one hundred fifty dollars ($150) for each year served in the District to bargaining unit members eligible to retire. In order to receive this payment, individuals must retire in the first year that they meet the member eligibility requirements for retirement as defined by STRS.

The Board of Education shall pay one hundred dollars ($100) for each year served in the District to bargaining unit members eligible to retire. In order to receive this payment, individuals must retire in the second year that they meet the member eligibility requirements for retirement as defined by STRS.

The Board of Education shall pay fifty dollars ($50) for each year served in the District to bargaining unit members eligible to retire. In order to receive this payment, individuals must retire in the third year that they meet the member eligibility requirements for retirement as defined by STRS.

This program would be combined with the lump sum severance.

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were $283,003, $189,070, and $179,701 respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan member and beneficiaries. Authority to establish and amend benefits is provided by state statue per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215 -3476.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll. A portion of the Districts contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of actual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was of annual covered salary was the portion used to fund pension obligations for fiscal year 2003. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $43,298, $27,561, and $36,542, respectively; 54 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

11. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was $3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were $354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five 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.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were $182,946,777 and the target level was $274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were $335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2002, as certified to your district by SERS.

12. RISK MANAGEMENT

A. Comprehensive

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

General Liability	
Per Occurrence	$ 2,000,000
Total per Year	4,000,000
Blanket Property Insurance ($1,000 deductible)	10,377,432
Auto Coverage	
Uninsured/underinsured Coverage	1,000,000
Liability	2,000,000
Auto Medical Payment	5,000

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

B. Employee Insurance Benefits Program

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

C. Workers' Compensation Group Program

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

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The District paid $5,104 in premiums during the 2003 fiscal year.

13. ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria, uniform school supply services, and adult education. Segment information for the year ended June 30, 2003 was as follows:

	Food Service	School Supplies	Enterprise Funds
Operating Revenues	$ 79,768	$ 2,538	$ 82,306
Depreciation Expense	2,180		2,180
Operating Income (Loss)	(67,538)	(154)	(67,692)
Donated Commodities	21,516		21,516
Grants	42,135		42,135
Interest	50		50
Other	1,474		1,474
Operating Transfers-In	4,500		4,500
Net Income (Loss)	2,137	(154)	1,983
Fixed Asset Addition	1,474		1,474
Net Working Capital	1,801	1,052	2,853
Total Assets	29,048	1,052	30,100
Total Liabilities	20,307		20,307
Contributed Capital	2,446		2,446
Total Equity	8,741	1,052	9,793

14. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were $33,818. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were $2,750. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; and one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

15. RELATED ORGANIZATIONS

Normal Memorial Library

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

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

16. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were $393,602. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of $420 to the WCGRP to cover the costs of administering the program.

17. SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Balance as of June 30, 2002	$ (27,948)	$ -	$ 20,872
Current Year Set-aside Requirement	62,101	62,101	-
Qualifying Disbursements	(77,630)	(62,101)	-
Balance Carried Forward to FY 2004	$ (43,477)	$ -	$ 20,872
Set-aside Cash Balance Carried Forward to FY 2004			$ 20,872

Although the School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amounts to below zero, the extra amounts may not be used to reduce the set-aside requirements of future years.

18. 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

19. AGENCY FUNDS

General Purpose Statement Changes in Assets and Liabilities

	Balance at 06/30/02	Change	Balance at 06/30/03
Assets	$ 19,314	$ (114)	$ 19,200
Liabilities	$ 19,314	$ (114)	$ 19,200

20. SCHOOL DISTRICT INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2003, the District recorded income tax revenue of $358,918 in the General Fund, of which $134,763 is recorded as a receivable at June 30, 2003.

Auditor of State
Betty Montgomery

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

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

We have audited the financial statements of the Gorham Fayette Local School District, Fulton County, (the District) as of and for the year ended June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United Sates of America and the standards applicable to the 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 provision of laws, regulations, contract 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 object of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

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 misstatement 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 function. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 19, 2003.

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www.auditor.state.oh.us

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

Betty Montgomery

Betty Montgomery
Auditor of State

December 19, 2003

GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-001	Failure to comply with Continuing Disclosure Certificate for School Facility Construction and Improvement Bonds	Yes	

Auditor of State
Betty Montgomery

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800-282-0370

Facsimile 614-466-4490

GORHAM FAYETTE LOCAL SCHOOL DISTRICT

FULTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 20, 2004