



**Auditor of State
Betty Montgomery**

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Graham Local School District
Champaign County
370 East Main Street
St. Paris, Ohio 43072

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Graham Local School District, Champaign County, (the "School District"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Government's basic financial statements. The schedule of federal awards expenditures provides additional information and is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 2, 2005

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

The discussion and analysis of the Graham Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

Overall:

- Total net assets decreased \$709,331, which represents a 5.38% decrease from fiscal year 2003.
- Total assets of governmental activities decreased by \$647,087, attributed almost exclusively to the recording of depreciation of capital assets in the amount of \$886,459.
- General revenues accounted for \$15.0 million or 87.26% of total revenue. Program specific revenues in the form of charges for services and operating grants and contributions account for \$2.2 million or 12.74% of total revenues of \$17.2 million.
- Of the School District's \$17.9 million in expenses, only \$2.2 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$15.7 million.
- The General Fund had \$14.6 million in revenues and \$15.2 million in expenditures representing 84.69% and 85.61% of the total governmental funds revenues and expenditures, respectively. The Debt Service fund balance increased \$88,548, due primarily to property tax collections being sufficient to cover debt service payments. The Permanent Improvement fund balance remained consistent with an increase of \$281.

Using the 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 Graham Local School 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 School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of Graham Local School District, the School District chose the General Fund, Debt Service and the Permanent Improvement Fund as the most significant funds.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Reporting the School District as a Whole

B. Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers 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 School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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 School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

C. Fund Financial Statements

The analysis of the School District's General Fund begins on page 14. Fund financial reports provide detailed information about the General Fund. The School District uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the School District's most significant funds, and therefore only the General Fund, Debt Service and the Permanent Improvement funds are presented separate from the other governmental funds.

Governmental Funds

The School 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 statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets at June 30, 2004 as compared to June 30, 2003:

TABLE 1
NET ASSETS, JUNE 30

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current and Other Assets	\$ 9,824,665	10,059,759
Capital Assets	<u>17,759,480</u>	<u>18,171,473</u>
Total Assets	<u>27,584,145</u>	<u>28,231,232</u>
LIABILITIES		
Current Liabilities	7,293,365	7,034,015
Noncurrent Liabilities	<u>7,804,712</u>	<u>8,001,818</u>
Total Liabilities	<u>15,098,077</u>	<u>15,035,833</u>
NET ASSETS:		
Invested in Capital Assets, Net of Debt	11,307,161	11,465,591
Restricted	2,396,407	2,312,112
Unrestricted	<u>(1,217,500)</u>	<u>(582,304)</u>
Total Net Assets	\$ <u>12,486,068</u>	<u>13,195,399</u>

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2004, the School District's net assets were \$12.5 million. Of that amount, approximately \$11.3 million was invested in capital assets, net of debt related to those assets. Another \$2.4 million was subject to external restrictions upon its use.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Table 2 shows the changes in net assets for fiscal year ended June 30, 2004 as compared to June 30, 2003.

**TABLE 2
CHANGE IN NET ASSETS, JUNE 30**

	2004	2003
REVENUES:		
Program Revenues:		
Charges for Services	\$ 1,375,224	945,189
Operating Grants and Contributions	817,489	571,475
General Revenues:		
Property Taxes	5,420,734	5,817,105
Grants and Entitlements	9,391,459	9,010,952
Investment Earnings	47,837	63,041
Loss on Sale of Capital Assets	-	(45,170)
Other	163,364	158,039
Total Revenues	17,216,107	16,520,631
PROGRAM EXPENSES:		
Instruction	10,343,171	9,251,212
Support Services:		
Pupils and Instructional Staff	2,000,777	1,769,346
Board of Education, Administration		
Fiscal and Business	1,645,571	1,511,461
Operation and Maintenance of Plant	1,310,020	1,199,917
Pupil Transportation	1,140,294	1,087,338
Central	73,269	87,338
Operation of Non-Instructional Services	651,499	524,969
Extracurricular Activities	432,496	423,852
Interest and Fiscal Charges	328,341	337,991
Total Expenses	17,925,438	16,193,424
Change in Net Assets	\$ (709,331)	327,207

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 31.49% percent of revenues for governmental activities for the Graham Local School District for fiscal year 2004. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 59.30% of the School District's total revenue was received from intergovernmental sources during fiscal year 2004.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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Despite not having sought new operating funds through a property tax levy in the past several years, the School District has been able to regain stable financial footing after struggling through financial difficulties in the late 1990's. Through careful management of expenses, the School District has been able to maintain a stable fund balance. However, if additional revenue sources are not secured, the School District will have to implement spending reductions in order to avoid depleting cash reserves.

Instruction comprises 57.50% of the School District's expenses for fiscal year 2004. Support services expenses make up 34.41% of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**TABLE 3
TOTAL AND COST OF PROGRAM SERVICES
FOR THE FISCAL YEAR ENDED JUNE 30,**

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 10,343,171	9,151,045	9,251,212	8,665,249
Support Services:				
Pupils and Instructional Staff	2,000,777	1,748,615	1,769,346	1,533,195
Board of Education, Administration, Fiscal and Business	1,645,571	1,645,027	1,511,461	1,505,377
Operation and Maintenance of Plant	1,310,020	1,300,905	1,199,917	1,097,799
Pupil Transportation	1,140,294	1,139,393	1,087,338	1,087,338
Central	73,269	65,242	87,338	79,202
Operation of Non-Instructional Services	651,499	52,414	524,969	76,093
Extracurricular Activities	432,496	301,743	423,852	294,516
Interest and Fiscal Charges	328,341	328,341	337,991	337,991
Total Expenses	\$ 17,925,438	15,732,725	16,193,424	14,676,760

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Plant operation and maintenance activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, as well as services provided to the community at-large.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the School District.

The School District's Funds

Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17.2 million and expenditures of \$17.7 million. Total fund balance went from \$2.9 million in 2003 to \$2.4 million in 2004.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2004, the School District amended its general fund budget one time.

For the General Fund, budget basis revenue was \$14.7 million as compared to the original budget estimates of \$14.8 million. This difference included tax revenues originally budgeted at \$5.1 million and actual amounts received were \$4.6 million and intergovernmental revenues initially budgeted at \$9.1 million with budget basis revenues coming in at \$9.3 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$14.9 million, \$0.3 million over revenues, as well as \$0.8 million below final budget estimates.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets

At the end of fiscal year 2004, the School District had \$17.76 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2004 balances compared to 2003:

TABLE 4
CAPITAL ASSETS, JUNE 30

	2004	2003
Land	\$ 348,941	328,180
Buildings	19,010,354	18,905,093
Improvements	2,022,659	1,962,196
Furniture and Equipment	2,874,350	2,735,887
Vehicles	1,744,022	1,611,502
Less: Accumulated Depreciation	(8,240,846)	(7,371,385)
	\$ 17,759,480	18,171,473

Overall capital assets decreased approximately \$412,000 from fiscal year 2003. This decrease was attributable to the recognition of depreciation expense in the amount of \$866,459 offset by capital asset acquisitions in the amount of \$474,466.

For fiscal year 2000 and forward, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2004, this amount was \$306,855 for each set aside requirement. The School District had qualifying disbursements in the amount of \$376,850 for capital improvements and \$313,929 in textbooks to offset these requirements. In addition, the School District carried forward a deficit of \$97,543 for textbooks and \$154,990 for capital improvements to meet the required disbursements for fiscal year 2005.

Debt Administration

At June 30, 2004, the School District had two general obligation bonds outstanding with principal due of \$6,410,638, of which \$295,000 is due within one year. The original principal of the bond was \$7,735,000 in voted general obligation bonds for construction, improvement, and renovation of school facilities. The bond issue included serial, term, and capital appreciation bonds in the amount of \$3,840,000, \$3,660,000, and \$235,000, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2021. Additional debt issues include a loan for asbestos removal with a balance due at June 30, 2004 of \$41,681, of which \$7,149 is due within one year.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

At June 30, 2004, the School District's overall legal debt margin was \$14,286,101 and the unvoted debt margin was \$215,717.

For more detailed information regarding the School District's debt obligations, the reader should refer to the notes to the basic financial statements.

For the Future

Graham Local School District continues to struggle with the reduction in operating revenue provided by the State of Ohio. Recent legislative decisions continue to reduce operating funds through the planned phase out of the inventory tax base and reduced foundation subsidy payments. It is anticipated the realized state funding for fiscal year 2005 will be approximately \$250,000 less than the amount received for fiscal year 2004. These factors coupled with increasing operating costs will continue to put a financial strain on the School District.

The School District only has one emergency levy and two permanent improvement levies. The emergency levy and one permanent improvement levy will need to be renewed in calendar year 2004. The Board of Education has voted to place a bond issue to build a new elementary school on the ballot for May of 2005. This is part of the Ohio School Facilities Expedited Local Partnership Plan. If the bond issue is successful, this will qualify the district for state funding when it becomes available in the next 5 to 6 years.

The state lawsuit has benefited the district in increased state per pupil amount. This by itself would have left the district in financial need but the formula has included Gap Aid and Excess Categorical Aid, which has allowed the district to operate modestly without additional local levies. Unfortunately, Gap Aid has created a dependent situation where the district will lose Gap Aid if we get additional local tax funding.

The lawsuit has failed to get the state to move away from dependence on property tax and the new formulas make funding very complex and difficult to explain to the public.

Graham has initiated its own community school to compete with the for profit community schools. This has helped lessen the blow of lost funding to these schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Graham Local School District, 370 East Main Street, St. Paris, Ohio 43072 or call (937) 663-4123.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Statement of Net Assets
June 30, 2004*

	Primary Government	Component Unit
	Governmental Activities	Graham Digital Academy
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 3,942,432	50,281
Receivables:		
Taxes	5,724,139	-
Accounts	18,100	-
Intergovernmental	41,281	7,500
Materials and Supplies Inventory	14,907	-
Prepaid Items	83,806	-
Capital Assets:		
Capital assets not subject to depreciation:		
Land	348,941	-
Capital assets, net of accumulated depreciation	<u>17,410,539</u>	<u>13,666</u>
 Total Assets	 <u>27,584,145</u>	 <u>71,447</u>
LIABILITIES:		
Accounts Payable	143,808	-
Accrued Wages and Benefits	1,272,370	-
Intergovernmental Payable	733,248	6,976
Deferred Revenue	5,143,939	-
Noncurrent Liabilities:		
Due Within One Year	372,064	-
Due In More Than One Year	<u>7,432,648</u>	<u>-</u>
 Total Liabilities	 <u>15,098,077</u>	 <u>6,976</u>
NET ASSETS:		
Invested in capital assets, net of related debt	11,307,161	13,666
Restricted for:		
Special Revenue	252,164	-
Debt Service	1,305,408	-
Capital Projects	838,835	-
Unrestricted	<u>(1,217,500)</u>	<u>50,805</u>
 Total Net Assets	 <u>\$ 12,486,068</u>	 <u>64,471</u>

See accompanying notes to the basic financial statements.

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**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Functions/Programs:	Primary Government			Net (Expense) Revenue and Changes in Net Assets	Component Unit Graham Digital Academy
	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions		
Primary Government:					
Governmental Activities:					
Instruction:					
Regular	\$ 7,299,225	638,298	135,495	(6,525,432)	-
Special	1,869,163	-	418,333	(1,450,830)	-
Vocational	500,088	-	-	(500,088)	-
Adult/Continuing	3,500	-	-	(3,500)	-
Other	671,195	-	-	(671,195)	-
Support Services:					
Pupils	909,785	160,146	42,022	(707,617)	-
Instructional Staff	1,090,992	-	49,994	(1,040,998)	-
Board of Education	30,181	-	-	(30,181)	-
Administration	1,184,184	-	-	(1,184,184)	-
Fiscal	424,397	-	-	(424,397)	-
Business	6,809	-	544	(6,265)	-
Operation and Maintenance of Plant	1,310,020	-	9,115	(1,300,905)	-
Pupil Transportation	1,140,294	-	901	(1,139,393)	-
Central	73,269	-	8,027	(65,242)	-
Operation of Non-Instructional Services	651,499	446,027	153,058	(52,414)	-
Extracurricular Activities	432,496	130,753	-	(301,743)	-
Interest and Fiscal Charges	328,341	-	-	(328,341)	-
Total Primary Government	\$ <u>17,925,438</u>	<u>1,375,224</u>	<u>817,489</u>	<u>(15,732,725)</u>	<u>-</u>
Component Unit:					
Graham Digital Academy	<u>100,087</u>	<u>-</u>	<u>178,070</u>	<u>-</u>	<u>77,983</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes				4,469,750	-
Special Purposes				606,842	-
Debt Service				257,764	-
Capital Outlay				86,378	-
Grants, Entitlements and Contributions not Restricted to Specific Programs				9,391,459	-
Investment Earnings				47,837	404
Other Revenue				163,364	10
Total General Revenues				<u>15,023,394</u>	<u>414</u>
Change in Net Assets				(709,331)	78,397
Net Assets, Beginning of Year				<u>13,195,399</u>	<u>(13,926)</u>
Net Assets, End of Year				\$ <u>12,486,068</u>	<u>64,471</u>

See accompanying notes to the basic financial statements.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Balance Sheet
Governmental Funds
June 30, 2004*

	General Fund	Debt Service Fund	Permanent Improvement Fund	Nonmajor Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,317,312	1,246,308	845,216	533,596
Receivables:				
Taxes	4,791,448	553,926	286,754	92,011
Accounts	17,147	-	-	953
Intergovernmental	-	-	-	41,281
Materials and Supplies Inventory	-	-	-	14,907
Prepaid Items	83,806	-	-	-
	<u>6,209,713</u>	<u>1,800,234</u>	<u>1,131,970</u>	<u>682,748</u>
Total Assets	\$ <u>6,209,713</u>	<u>1,800,234</u>	<u>1,131,970</u>	<u>682,748</u>
LIABILITIES:				
Accounts Payable	\$ 86,042	-	31,881	25,885
Accrued Wages and Benefits	1,210,910	-	-	61,460
Intergovernmental Payable	569,831	-	-	31,134
Compensated Absences Payable	65,802	-	-	4,113
Deferred Revenue	4,496,248	518,026	271,264	86,181
	<u>6,428,833</u>	<u>518,026</u>	<u>303,145</u>	<u>208,773</u>
Total Liabilities	<u>6,428,833</u>	<u>518,026</u>	<u>303,145</u>	<u>208,773</u>
FUND BALANCES:				
Reserved for:				
Encumbrances	72,846	-	11,570	21,153
Prepaid Items	83,806	-	-	-
Property Taxes	295,200	35,900	15,490	5,830
Unreserved, Undesignated:				
General Fund	(670,972)	-	-	-
Special Revenue Funds	-	-	-	446,992
Debt Service	-	1,246,308	-	-
Capital Projects Funds	-	-	801,765	-
	<u>(219,120)</u>	<u>1,282,208</u>	<u>828,825</u>	<u>473,975</u>
Total Fund Balances	<u>(219,120)</u>	<u>1,282,208</u>	<u>828,825</u>	<u>473,975</u>
Total Liabilities and Fund Balances	\$ <u>6,209,713</u>	<u>1,800,234</u>	<u>1,131,970</u>	<u>682,748</u>

See accompanying notes to the basic financial statements.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004*

<p>Total Governmental Funds</p> <hr/> <p>3,942,432</p> <p>5,724,139</p> <p>18,100</p> <p>41,281</p> <p>14,907</p> <p><u>83,806</u></p> <p><u>9,824,665</u></p> <p>143,808</p> <p>1,272,370</p> <p>600,965</p> <p>69,915</p> <p><u>5,371,719</u></p> <p><u>7,458,777</u></p> <p>105,569</p> <p>83,806</p> <p>352,420</p> <p>(670,972)</p> <p>446,992</p> <p>1,246,308</p> <p><u>801,765</u></p> <p><u>2,365,888</u></p> <p><u>9,824,665</u></p>	<p>Total Governmental Fund Balances</p> <p>Amounts reported for governmental are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> <p>Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.</p> <p>Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds</p> <p style="padding-left: 20px;">Compensated Absences</p> <p style="padding-left: 20px;">Intergovernmental Payable</p> <p style="padding-left: 20px;">Asbestos Loan Payable</p> <p style="padding-left: 20px;">General Obligations Bonds Payable</p> <p>Net Assets of Governmental Activities</p> <p>See accompanying notes to the basic financial statements.</p>	<p>\$ 2,365,888</p> <p>17,759,480</p> <p>227,780</p> <p>(1,282,478)</p> <p>(132,283)</p> <p>(41,681)</p> <p><u>(6,410,638)</u></p> <p>\$ <u>12,486,068</u></p>
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GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General Fund	Debt Service Fund	Permanent Improvement Fund	Nonmajor Governmental Funds
REVENUES:				
Taxes	\$ 4,459,350	606,632	267,914	85,828
Intergovernmental	9,289,223	75,359	26,877	817,489
Investment Earnings	42,225	-	4,751	861
Tuition and Fees	637,448	-	-	850
Charges for Services	-	-	-	445,350
Extracurricular Activities	-	-	-	290,899
Miscellaneous	150,637	-	-	13,404
	<u>14,578,883</u>	<u>681,991</u>	<u>299,542</u>	<u>1,654,681</u>
Total Revenues				
EXPENDITURES:				
Current:				
Instruction:				
Regular	6,521,000	-	-	128,856
Special	1,380,753	-	-	423,623
Vocational	526,301	-	-	-
Adult/Continuing	2,000	-	-	1,500
Other	671,195	-	-	-
Support Services:				
Pupils	695,170	-	-	207,184
Instructional Staff	1,044,328	-	-	48,084
Board of Education	30,181	-	-	-
Administration	1,198,024	-	-	1,027
Fiscal	387,977	18,688	8,927	2,605
Business	15,275	-	-	-
Operation and Maintenance of Plant	1,226,498	-	53	52,787
Pupil Transportation	1,134,604	-	32,277	3,229
Central	66,852	-	-	6,417
Operation of Non-Instructional Services	-	-	-	649,932
Extracurricular Activities	270,479	-	-	131,613
Capital Outlay	-	-	250,855	-
Debt Service:				
Principal	-	280,000	7,149	-
Interest	-	294,755	-	-
	<u>15,170,637</u>	<u>593,443</u>	<u>299,261</u>	<u>1,656,857</u>
Total Expenditures				
Net Change in Fund Balances	(591,754)	88,548	281	(2,176)
Fund Balance, Beginning of Year	372,634	1,193,660	828,544	476,151
Fund Balance, End of Year	\$ <u>(219,120)</u>	<u>1,282,208</u>	<u>828,825</u>	<u>473,975</u>

See accompanying notes to the basic financial statements.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN 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, 2004

<p>Total Governmental Funds</p> <hr/> <p>5,419,724 10,208,948 47,837 638,298 445,350 290,899 <u>164,041</u></p> <p>17,215,097</p> <hr/> <p>6,649,856 1,804,376 526,301 3,500 671,195</p> <p>902,354 1,092,412 30,181 1,199,051 418,197 15,275 1,279,338 1,170,110 73,269 649,932 402,092 250,855</p> <p>287,149 294,755</p> <hr/> <p>17,720,198</p> <p>(505,101)</p> <hr/> <p>2,870,989</p> <hr/> <p><u>2,365,888</u></p>	<p>Total Net Change in Fund Balances - Total Governmental Funds \$ (505,101)</p> <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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 depreciation exceeded capital outlay in the current period.</p> <p style="padding-left: 40px;">Capital Asset Additions 474,466</p> <p style="padding-left: 40px;">Current Year Depreciation (886,459)</p> <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,010</p> <p>Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 287,149</p> <p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payables which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <p style="padding-left: 40px;">Compensated Absences (38,970)</p> <p style="padding-left: 40px;">Intergovernmental Payable (7,840)</p> <p style="padding-left: 40px;">Accrued Interest on Capital Appreciation Bonds <u>(33,586)</u></p> <p>Change in Net Assets of Governmental Activities \$ <u>(709,331)</u></p> <p>See accompanying notes to the basic financial statements.</p>	
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**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Scholarship Private- Purpose Trust Funds	Agency Fund
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 128,836	46,306
Receivables:		
Accounts	-	95
Notes	<u>38,000</u>	<u>-</u>
Total Assets	\$ <u>166,836</u>	<u>46,401</u>
LIABILITIES:		
Accounts Payable	\$ 1,500	597
Due to Students	<u>-</u>	<u>45,804</u>
Total Liabilities	<u>1,500</u>	<u>46,401</u>
NET ASSETS:		
Held in Trust for Scholarships	\$ <u><u>165,336</u></u>	<u><u>-</u></u>

See accompanying notes to the basic financial statements.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

*Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004*

	<u>Scholarship Private- Purpose Trust Funds</u>
ADDITIONS:	
Investment Earnings	\$ <u>1,899</u>
DEDUCTIONS:	
Educational Outreach	<u>2,500</u>
Change in Net Assets	(601)
Net Assets, Beginning of Year	<u>165,937</u>
Net Assets, End of Year	\$ <u>165,336</u>

See accompanying notes to the basic financial statements.

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GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Graham Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The School District operates under a locally elected, five-member Board of Education (Board) to provide educational and other services as required and permitted by the laws and regulations of the State of Ohio and United States of America.

The School District was established in 1955 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 189 square miles. It is located in Champaign and Shelby Counties, and includes all of the Villages of Christiansburg, Rosewood, and St. Paris, and portions of Adams, Concord, Harrison, Jackson, Johnson, and Mad River Townships. The School District is staffed by 95 classified employees, 145 certified teaching personnel, and 9 administrative employees who provide services to 2,187 students and other community members. The School District currently operates 5 instructional buildings and an administration building.

Reporting Entity: A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Graham Local School District, this includes general operations, food service, student guidance, extracurricular activities, educational media, care and upkeep of grounds and buildings, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has assumed responsibility to finance the deficits of, or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the levying of taxes or the issuance of debt for the organization.

The component unit column on the government-wide financial statements identifies the financial data of the School District's discretely presented component unit, Graham Digital Academy. It is reported separately to emphasize that it is legally separate from the School District.

Graham Digital Academy: Graham Digital Academy (Academy) is a legally separate not-for-profit organization served by an appointed six-member Board of Directors (Board). The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2002. The Academy began operations on March 11, 2004. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under the direction of a six-member Board appointed by the School District. The Board consists of four members who hold administrative positions with the School District, one public educator or public official not employed by the School District, and one individual representing the interest of parents and students. The Board consists of five voting members and one non-voting member, who is the Treasurer. The Board is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Therefore, the Academy is reflected as a component unit of Graham Local School District. The Academy operates on a fiscal year ending June 30. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or by calling (937) 663-4123.

The School District is associated with three jointly governed organizations, an insurance purchasing pool and a related organization. These organizations are presented in Notes 14, 15 and 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Ohio Hi-Point Joint Vocational School

Western Ohio Computer Organization

West Central Ohio Special Education Regional Resource Center

Southwestern Ohio Education Purchasing Council

Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation Group Rating Plan

Related Organization:

St. Paris Public Library

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District has three major funds; the General Fund, Debt Service Fund and the Permanent Improvement Capital Projects 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 is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund – The Debt Service Fund is used to account for financial resources, including local property taxes, for the repayment of principal, interest and related costs of general long-term obligations, specifically the general obligation bonds and notes issued in conjunction with the School District's school facilities projects.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for financial resources, specifically property and other local taxes generated by the District’s permanent improvement levy, to be used to maintain the School District’s facilities, as well as provide for major equipment and instructional material purchases.

The other governmental funds of the School District account for grants and other resources and capital projects of the School District whose uses are 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District’s own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has various funds established to provide scholarships to its students that are classified as private-purpose trust funds. Funds used to account for the activity of the numerous student-managed activities within the School District are classified as agency funds.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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, grants, investment earnings, tuition, and student fees.

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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budget Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board has established the legal level of control at the fund/object level for the General Fund and the fund level for all other funds.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary schedule in the required supplementary information reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary schedule in the required supplementary information reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the School 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 2004, investments included were limited to non-negotiable certificates of deposits, government securities and STAROhio.

Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The School District has invested funds in the State Treasury Assets Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year was \$42,225, which included \$24,056 assigned from other School District funds. Interest was also recorded in the food service and capital improvements funds in the amount of \$861 and \$4,751, respectively. The private-purpose scholarship fund recorded interest of \$1,899.

G. Materials and Supplies Inventory

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

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, and purchased food. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

I. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by State statute to be set aside to create a reserve for budget stabilization. Restricted assets also include unexpended revenues restricted for the purchase of school buses.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

K. Fixed Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; 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. Interest incurred during the construction of capital assets is also not capitalized.

All reported capital assets except for land and construction in progress 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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description	Estimated Lives
Buildings	50 years
Furniture and Equipment	5 – 20 years
Vehicles	10 years

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or 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 and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statement.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School 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 School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service with the School District.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported

N. 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, general obligation bonds, and capital leases are recognized as a liability on the governmental fund financial statements when due.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Assets

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

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

P. 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 that is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepaid items, and property taxes.

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

NOTE 3 – ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2004:

	Deficit <u>Fund Equity</u>
General Fund	\$ <u>219,120</u>
Special Revenue Funds:	
Summer Intervention	\$ 2,279
Title I	\$ 7,298

The deficits in the general fund and special revenue funds resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be correct in early fiscal year 2005. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. The School District will examine the need to increase its charges for services to the other funds or the general fund will provide operation transfers to eliminate the deficits.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School 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 or deposit accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance-Corporation (FDIC), 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 obligation 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 only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

8. Under limited circumstances, debt interest 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 School District, and must be purchased with the expectation that they 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.

Cash on Hand: At fiscal year end, the School District had \$250 in undeposited cash on hand which is included on the balance sheet of the School District as part of “Equity in Pooled Cash and Cash Equivalents”.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”.

Deposits: At fiscal year end, the carrying amount of the School District’s deposits was \$2,482,275 and the bank balance was \$2,615,400. Of the bank balance,

1. \$203,010 was covered by federal depository insurance, and;
2. \$2,412,390 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments: The School District’s investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the School District or its agent in the School District’s name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the School 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 School District’s name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$618,857.

The classification of cash and cash equivalents and investments on the combined balance sheet 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’.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying/ Fair Value</u>
Government Securities	\$ 1,016,192	-	1,016,192
STAR Ohio	-	-	618,857
	<u>\$ 1,016,192</u>	<u>-</u>	<u>1,635,049</u>

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 entitled "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 basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 4,117,574	-
Cash on Hand	(250)	-
Investments:		
Government Securities	(1,016,192)	1,016,192
STAR Ohio	(618,857)	618,857
	<u>\$ 2,482,275</u>	<u>1,635,049</u>
GASB Statement 3		

Component Unit: At fiscal year end, the carrying amount of the Academy's deposits was \$50,281, and the bank balance was \$50,281. The entire bank balance was covered by federal depository. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 5 – PROPERTY TAXES

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

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 5 – PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 2004 taxes were collected are:

	<u>2004 First Half Collections</u>		<u>2003 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 178,480,160	82.74%	174,502,320	81.65%
Public Utility	7,899,950	3.66%	7,884,480	3.69%
Tangible Personal Property	<u>29,336,898</u>	<u>13.60%</u>	<u>31,345,487</u>	<u>14.66%</u>
Total Assessed Value	<u>\$ 215,717,008</u>	<u>100.00%</u>	<u>213,732,287</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$34.45</u>		<u>\$35.88</u>	

The School District receives property taxes from Champaign and Shelby Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 5 – PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance was recognized as revenue. On the Statement of Activities, the delinquent taxes that were levied in previous years are recognized as revenue.

The amount available as an advance at June 30, 2004, was \$295,200, \$5,830, \$35,900 and \$15,490 in the General, Classroom Facilities Maintenance, Debt Service, and Permanent Improvement funds, respectively.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2004, consisted of current and delinquent property taxes, accounts (rent and student fees), intergovernmental grants and interfund transactions. 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amount</u>
Title I Grant	\$ 17,531
Title II Grant	12,135
Other	<u>11,615</u>
Total Intergovernmental Receivables	\$ <u><u>41,281</u></u>

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the Graham Local School District for the fiscal year ended June 30, 2004, is as follows:

	Balance, 6/30/2003	Additions	Deductions	Balance, 6/30/2004
<u>Capital Assets, not being depreciated</u>				
Land	\$ 328,180	20,761	-	348,941
	328,180	20,761	-	348,941
<u>Capital Assets, being depreciated</u>				
Buildings	18,905,093	105,261	-	19,010,354
Improvements	1,962,196	60,463	-	2,022,659
Furniture and Equipment	2,735,887	155,461	(16,998)	2,874,350
Vehicles	1,611,502	132,520	-	1,744,022
	25,214,678	453,705	(16,998)	25,651,385
<u>Less: Accumulated Depreciation</u>				
Buildings	(3,432,191)	(364,164)	-	(3,796,355)
Improvements	(1,618,924)	(239,889)	-	(1,858,813)
Furniture and Equipment	(1,246,987)	(177,497)	16,998	(1,407,486)
Vehicles	(1,073,283)	(104,909)	-	(1,178,192)
	(7,371,385)	(886,459) *	16,998	(8,240,846)
Capital Assets, being depreciated, net	17,843,293	(432,754)	-	17,410,539
Capital Assets, net	\$ 18,171,473	(411,993)	-	17,759,480

* – Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 700,398
Special	1,754
Vocational	3,151
Support Services:	
Pupils	2,413
Instructional Staff	8,021
Administration	2,339
Fiscal	1,510
Business	150
Operation and Maintenance of Plant	24,393
Pupil Transportation	102,410
Operation of Non-Instructional Services	9,853
Extracurricular Activities	30,067
	\$ 886,459

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 – CAPITAL ASSETS (Continued)

Capital asset activity for the Graham Digital Academy for the fiscal year ended June 30, 2004, is as follows:

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computer	\$ 4,375	11,300	-	15,675
Less: Accumulated Depreciation	(146)	(1,863)	-	(2,009)
Capital Assets, net	\$ 4,229	9,437	-	13,666

NOTE 8 – NOTES RECEIVABLE

The Brecount Scholarship Expendable Trust Fund was established in 1977 through a probated will. Qualified students can borrow funds to pay for the costs of higher education. The loans are interest free. Repayments begin upon obtaining employment and must be paid within ten years. At June 30, 2004, the balances of the outstanding loans were \$38,000.

NOTE 9 – RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Marsh Insurance and the Southwestern Ohio Educational Purchasing Council for the following insurance coverage:

Marsh Insurance:	
Property Damage (\$2,500 deductible)	\$ 50,000,000
Musical Instruments	353,646
Mobile Equipment	324,997
Electronic and Data Processing Equipment, including software, Media, and extra expenses	632,246
Southwestern Ohio Educational Purchasing Council (EDP):	
Automobile Liability	1,000,000
Uninsured Motorists Bodily Injury – Per Accident	1,000,000
Medical Payments per Person	5,000
General Liability – Per Occurrence	1,000,000

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

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 – RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$172,768, \$146,101, and \$155,220, respectively; 68.6 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$54,238.

B. State Teachers Retirement System

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

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. There were no changes in the contribution amounts from fiscal year 2003. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$968,502, \$853,832, and \$885,258, respectively; 81 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$183,820.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, two members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 – 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 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$74,500 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 105,000 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 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. 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.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$122,504 during the 2004 fiscal year.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Administrators earn up to twenty days of vacation per contract year. 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 a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for classified employees and two hundred twenty days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of fifty-six days for classified and certified employees.

B. Health Care Benefits

The School District provides health insurance and prescription drug benefits through Anthem Blue Cross Blue Shield. Vision insurance is provided through Vision Service Plan, Inc. and life and dental insurance are provided through Core Source. The premiums for health and dental insurance vary with each employee depending on marital and family status. Premiums for vision and life insurance are a set fee per employee covered.

NOTE 13 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	<u>Amount Outstanding June 30, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Amount Outstanding June 30, 2004</u>	<u>Amount Due Within One Year</u>
Long-Term Obligations:					
Asbestos Removal Loan					
0.0%	\$ 48,830	-	7,149	41,681	7,149
General Obligation Bonds:					
1998 School Facilities Issue					
Serial and Term Bonds					
3.75% - 5.0%	6,290,000	-	280,000	6,010,000	295,000
Capital Appreciation Bonds					
5.0% - 5.05%	367,052	33,586	-	400,638	-
Compensated Absences	<u>1,295,936</u>	<u>414,510</u>	<u>358,053</u>	<u>1,352,393</u>	<u>69,915</u>
Total Governmental Activities	\$ <u>8,001,818</u>	<u>448,096</u>	<u>645,202</u>	<u>7,804,712</u>	<u>372,064</u>

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Asbestos Removal Loan

On May 17, 1991, the School District obtained a loan, in the amount of \$128,683, for providing asbestos removal. The loan was obtained for a twenty-year period, with final maturity during fiscal year 2011. The loan is being retired from the Permanent Improvement Capital Projects Fund.

1998 School Facilities Bonds

On May 1, 1998, the School District issued \$7,735,000 in voted general obligation bonds for construction, improvement, and renovation of school facilities. The bond issue included serial, term, and capital appreciation bonds in the amount of \$3,840,000, \$3,660,000, and \$235,000, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2021. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, in each of the years 2013 through 2019 (with the balance of \$450,000 to be paid at stated maturity on December 1, 2020), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2013	\$400,000	2017	\$485,000
2014	420,000	2018	500,000
2015	440,000	2019	500,000
2016	465,000		

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial and term bonds maturing on December 1, 2009, 2010, and 2020 are subject to prior redemption on or after December 1, 2008, by and at the sole option of the School District, either in whole or in part (as selected by the School District) on any date and in integral multiples of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

<u>Redemption Dates</u> <u>(Dates Inclusive)</u>	<u>Redemption</u> <u>Prices</u>
December 1, 2008 through November 30, 2009	101.0
December 1, 2009 through November 30, 2010	100.5
December 1, 2010 and thereafter	100.0

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire outstanding general obligation debt at June 30, 2004, were as follows:

Year	Principal	Interest	Total
2005	\$ 302,149	282,463	584,612
2006	312,149	269,410	581,559
2007	327,149	255,580	582,729
2008	342,149	240,923	583,072
2009	357,149	225,422	582,571
2010-2014	1,551,574	1,504,900	3,056,474
2015-2019	2,310,000	536,500	2,846,500
2020-2021	950,000	46,250	996,250
	<u>\$ 6,452,319</u>	<u>3,361,448</u>	<u>9,813,767</u>

The capital appreciation bonds will mature in 2012 and 2013. The maturity amount of the bonds is \$800,000. For fiscal year 2004, \$33,586 was accreted for a total bond value of \$400,638.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$14,286,101 with an unvoted debt margin of \$215,717 at June 30, 2004.

In fiscal year 1998, the School District was awarded \$11,015,190 for improvements to its facilities under the State's "Classroom Facilities Program". Under this program, the School District entered into an agreement with the State of Ohio in which the State paid for a portion of the estimated project costs. Additionally, the School District was required to issue bonds, and levy a property tax for the payment of those bonds, for the School District's portion of construction and maintenance costs. Any funds provided by the State Classroom Facilities Commission, in excess of construction-costs, shall be returned to the Commission. Any funds remaining from the issuance of the bonds, in excess of construction costs, must be used solely for maintaining the constructed facilities. The constructed facilities must be used for school purposes as long as the Commission retains any interest in the project, or for a period of twenty-three years, whichever is less.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Joint Vocational School – The Ohio Hi-Point Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each participating School Districts elected board. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Eric Adelsberger, who serves as Treasurer, 2280 State Route 540, Bellefontaine, Ohio 43311.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Western Ohio Computer Organization – The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public Districts within the boundaries of Hardin, Auglaize, Shelby, Logan, Miami and Champaign 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 Districts. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

West Central Ohio Special Education Regional Resource Center – The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating members is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326-2385.

Southwestern Ohio Educational Purchasing Council – The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association – The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 15 – INSURANCE POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating-Plan (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 the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235.

The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. 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 Program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program 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 Program. 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 program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Program.

NOTE 16 – RELATED ORGANIZATION

St. Paris Public Library – The St. Paris Public 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 Graham Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority and the School District issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the St. Paris Public Library, Diane Kremer, Clerk/Treasurer, P.O. Box 740, St. Paris, Ohio 43072.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 17 - 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 decision 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 its future State funding and on its financial operations.

NOTE 18 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

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

NOTE 19 - 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

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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance, As of June 30, 2003	\$ (90,469)	(84,995)
Current Year Set-aside Requirement	306,855	306,855
Qualifying Disbursements	<u>(313,929)</u>	<u>(376,850)</u>
Total	<u>(97,543)</u>	<u>(154,990)</u>
Balance Carried Forward to FY 2005	\$ <u>(97,543)</u>	<u>(154,990)</u>

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 5,065,000	5,134,517	4,551,453	(583,064)
Intergovernmental	9,114,664	8,518,587	9,289,223	770,636
Interest	31,963	41,824	45,585	3,761
Tuition and Fees	447,510	586,010	639,024	53,014
Gifts and Donations	1,100	1,100	1,100	-
Miscellaneous	97,434	127,558	139,809	12,251
Total Revenues	14,757,671	14,409,596	14,666,194	256,598
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,541,187	6,451,291	6,352,271	99,020
Special	1,319,947	1,391,635	1,355,718	35,917
Vocational	495,842	499,745	484,606	15,139
Adult/Continuing	3,000	4,000	3,000	1,000
Other	564,702	681,802	668,766	13,036
Support Services:				
Pupils	764,436	753,336	687,055	66,281
Instructional Staff	948,619	1,096,431	1,027,410	69,021
Board of Education	43,542	45,442	30,264	15,178
Administration	1,232,774	1,253,306	1,207,931	45,375
Fiscal	413,569	448,069	425,385	22,684
Business	111,375	80,103	16,575	63,528
Operation and Maintenance of Plant	1,523,706	1,352,251	1,191,371	160,880
Pupil Transportation	1,232,051	1,267,081	1,143,603	123,478
Central	111,839	115,864	67,894	47,970
Extracurricular Activities	274,310	301,820	264,784	37,036
Capital Outlay	13,642	12,088	-	12,088
Debt Service:				
Principal	32,500	500	-	500
Interest	2,535	2,535	-	2,535
Total Expenditures	15,629,576	15,757,299	14,926,633	830,666
Excess of Revenues Over (Under) Expenditures	(871,905)	(1,347,703)	(260,439)	1,087,264
<u>Other Financing Sources (Uses):</u>				
Advances In	-	-	2,065	2,065
Advances Out	(5,000)	(5,000)	-	5,000
Total Other Financing Sources (Uses)	(5,000)	(5,000)	2,065	7,065
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(876,905)	(1,352,703)	(258,374)	1,094,329
Fund Balance, Beginning of Year	1,309,218	1,309,218	1,309,218	-
Prior Year Encumbrances Appropriated	153,394	153,394	153,394	-
Fund Balance, End of Year	\$ 585,707	109,909	1,204,238	1,094,329

See accompanying notes to the required supplementary information.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

Basis of Budgeting

Basis of budgeting refers to when revenues and expenditures or expenses are recognized in the accounts. The Graham Local School District's (the School District) budget for all legislated funds are prepared on a cash-encumbrance basis wherein transactions are recorded when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

The basis of budgeting differs from generally accepted accounting principles (GAAP) used for the School District's year-end basic financial statements. Under that basis of accounting, revenues are generally recognized when the obligation to the School District arises; the budget basis however, recognizes revenue only when cash has been received. In the basic financial statements, expenditures are generally recognized in the period in which they are incurred. Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

General Budget Policies

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund/object for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate of estimated resources issued during fiscal year 2004.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

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

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

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

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – 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 GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2004

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

NET CHANGE IN FUND BALANCE

	<u>General Fund</u>
GAAP Basis	\$ (591,754)
Revenue Accruals	87,311
Expenditure Accruals	244,004
Advances	<u>2,065</u>
Budget (Non-GAAP) Basis	\$ <u><u>(258,374)</u></u>

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURAL						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$45,607		\$45,607
National School Lunch Program		10.555	127,302		127,302	
Total U. S. Department of Agriculture - Nutrition Cluster			127,302	45,607	127,302	45,607
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	6B-SF 04	84.027	262,858		262,858	
Safe and Drug-Free Schools and Communities State Grants	DR-S1-03 DR-S1-04	84.186 84.186	(35) 7,753		7,753	
Total Safe and Drug-Free School and Communities State Grants			7,718		7,753	
Title 1 Grants to Local Educational Agencies	C1-S1 03 C1-S1 04	84.010 84.010	20,204 167,944		20,818 158,760	
Total Title 1 Grants to Local Educational Agencies			188,148		179,578	
Innovative Educational Program Strategies	C2-S1 04	84.298	12,022		12,022	
Education Technology State Grants	TJ-S1 04	84.318	5,193		5,048	
Improving Teacher Quality State Grants	TR-S1 03 TR-S1 04	84.367 83.367	(1,086) 61,085		57,862	
Total Improving Teacher Quality State Grants			59,999		57,862	
Total U. S. Department of Education			535,938		525,121	
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$663,240</u>	<u>\$45,607</u>	<u>\$652,423</u>	<u>\$45,607</u>

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

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR-ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C - NEGATIVE RECEIPTS

The negative receipts in the Safe and Drug-Free Schools and Communities State Grants and Improving Teacher Quality State Grants were a result of transfers between special cost centers due to Ohio Department of Education administrative action changing the methodology for carryover periods.

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Auditor of State Betty Montgomery

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

Graham Local School District
Champaign County
370 East Main Street
St. Paris, Ohio 43072

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Graham Local School District, Champaign County, (the "School District"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 2, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated May 2, 2005, we reported a matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

May 2, 2005



Auditor of State Betty Montgomery

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

Graham Local School District
Champaign County
370 East Main Street
St. Paris, Ohio 43072

To the Board of Education:

Compliance

We have audited the compliance of Graham Local School District, Champaign County, (the "School District"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the fiscal year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

The School District's management 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 School District's internal control over compliance with requirements that could directly and materially affect the major federal program 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.

**Internal Control Over Compliance
(Continued)**

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to the major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

May 2, 2005

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

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 1, 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 FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN 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
JUNE 2, 2005**