

GRAHAM LOCAL SCHOOL DISTRICT

Basic Financial Statements

June 30, 2006

with

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Education
Graham Local School District
370 E. Main Street
St. Paris, Ohio 43072-9200

We have reviewed the *Independent Auditor's Report* of the Graham Local School District, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 16, 2007

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GRAHAM LOCAL SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditor's Report

Board of Education
Graham Local School District
370 E Main Street
St. Paris, Ohio 43072

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District, as of June 30, 2006, 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 January 4, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 43 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 4, 2007

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. 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 notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

Overall:

- Total net assets decreased \$96,202 compared with the \$199,334 increase in the prior year.
- Total assets of governmental activities increased \$590,128 due primarily to an increase in construction in progress and decrease in cash with fiscal agent.
- General revenues accounted for \$16.5 million or 86.5 percent of total revenue. Program specific revenues in the form of charges for services and operating grants and contributions account for \$2.6 million or 13.5 percent of total revenues of \$19.0 million.
- Of the School District's \$19.1 million in expenses, only \$2.6 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 most of the net expense of \$16.6 million.
- The General Fund had \$15.2 million in revenues and \$15.4 million in expenditures representing 79.4 percent and 71.7 percent of the total governmental funds revenues and expenditures, respectively.

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 General Fund, Bond Retirement and Building Construction Project funds are the most significant funds.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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 2006?" 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

Fund financial reports provide detailed information about the School District's governmental funds. The School District uses many funds to account for a multitude of financial transactions and focus on the most significant of those funds. The School District's major funds include the General Fund, Bond Retirement Fund, and Building Construction Fund. As these funds have been determined to be the most significant funds, they are presented separate from the other governmental funds. The financial activity of the remaining funds are combined together and presented in one column on the fund financial statements.

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, 2006
Unaudited*

The School District as a Whole

Table 1 provides a summary of the School District's net assets at June 30, 2006 as compared to June 30, 2005:

**TABLE 1
NET ASSETS, JUNE 30**

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|--------------------|
| ASSETS: | | |
| Current and Other Assets | \$ 22,995,117 | 24,182,803 |
| Capital Assets | <u>19,023,110</u> | <u>17,245,296</u> |
| Total Assets | <u>42,018,227</u> | <u>41,428,099</u> |
| LIABILITIES | | |
| Current Liabilities | 7,954,077 | 20,977,924 |
| Noncurrent Liabilities | <u>21,474,950</u> | <u>7,764,773</u> |
| Total Liabilities | <u>29,429,027</u> | <u>28,742,697</u> |
| NET ASSETS: | | |
| Invested in Capital Assets, Net of Debt | 12,161,137 | 11,055,584 |
| Restricted | 2,855,760 | 2,767,625 |
| Unrestricted | <u>(2,427,697)</u> | <u>(1,137,807)</u> |
| Total Net Assets | \$ <u>12,589,200</u> | <u>12,685,402</u> |

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2006, the School District's net assets were \$12.6 million. The increase in the net assets invested in capital assets is a result of the School District starting the construction of a new elementary school building. Construction of the building began in fiscal year 2006 and the costs incurred during the year have been capitalized as construction in progress as of June 30, 2006. While the School District issued nearly \$13 million of general obligation debt to finance the construction project, the majority of these funds still remain in the Building Construction Project Fund. The increase in the unrestricted net asset deficit was due primarily to the School District spending more than it received during the fiscal year.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Table 2 shows the changes in net assets for fiscal year ended June 30, 2006 as compared to June 30, 2005.

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

| | 2006 | 2005 |
|---|--------------|------------|
| REVENUES: | | |
| Program Revenues: | | |
| Charges for Services | \$ 1,493,617 | 1,397,103 |
| Operating Grants and Contributions | 1,074,336 | 910,604 |
| General Revenues: | | |
| Property Taxes | 4,402,389 | 6,053,340 |
| Grants and Entitlements | 11,130,276 | 9,469,885 |
| Investment Earnings | 781,327 | 102,872 |
| Other | 165,679 | 159,269 |
| Total Revenues | 19,047,624 | 18,093,073 |
| PROGRAM EXPENSES: | | |
| Instruction | 10,105,637 | 9,874,092 |
| Support Services: | | |
| Pupils and Instructional Staff | 2,006,563 | 2,094,749 |
| Board of Education, Administration | | |
| Fiscal and Business | 1,964,394 | 1,719,159 |
| Operation and Maintenance of Plant | 1,196,894 | 1,301,732 |
| Pupil Transportation | 1,404,332 | 1,231,625 |
| Central | 87,156 | 96,237 |
| Operation of Non-Instructional Services | 978,099 | 657,603 |
| Extracurricular Activities | 448,476 | 582,260 |
| Interest and Fiscal Charges | 952,275 | 336,282 |
| Total Expenses | 19,143,826 | 17,893,739 |
| Change in Net Assets | \$ (96,202) | 199,334 |

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 23.1 percent of revenues for governmental activities for the Graham Local School District for fiscal year 2006. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 64.1 percent of the School District's total revenue was received from intergovernmental sources during fiscal year 2006.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

For fiscal year 2006, total revenue reported by the School District increased 5.28 percent or \$1.0 million. Increases in gap aid accounted for most of the increase due to the School District no longer collecting on an emergency levy.

Total expenses reported for fiscal year 2006 were \$1.2 million higher than the prior fiscal year. While most of the functional areas of expenses increased over the prior year the functions that showed the greatest increase were interest, fiscal and operation of non-instructional services. The increases in these functions are a direct result of the School District starting construction on a new elementary school and the issuance of debt associated with the construction.

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,**

| | 2006 | | 2005 | |
|--|--------------------------|------------------------|--------------------------|------------------------|
| | Total Cost of Service | Net Cost of Service | Total Cost of Service | Net Cost of Service |
| Instruction | \$ 10,105,637 | 8,702,164 | 9,874,092 | 8,623,649 |
| Support Services: | | | | |
| Pupils and Instructional Staff | 2,006,563 | 1,780,221 | 2,094,749 | 1,849,365 |
| Board of Education, Administration, Fiscal and Business | 1,964,394 | 1,855,138 | 1,719,159 | 1,708,435 |
| Operation and Maintenance of Plant | 1,196,894 | 1,196,894 | 1,301,732 | 1,289,175 |
| Pupil Transportation | 1,404,332 | 1,404,332 | 1,231,625 | 1,224,268 |
| Central | 87,156 | 79,726 | 96,237 | 89,514 |
| Operation of Non-Instructional Services | 978,099 | 313,325 | 657,603 | 47,599 |
| Extracurricular Activities | 448,476 | 291,798 | 582,260 | 417,745 |
| Interest and Fiscal Charges | 952,275 | 952,275 | 336,282 | 336,282 |
| Total Expenses | \$ 19,143,826 | 16,575,873 | 17,893,739 | 15,586,032 |

In fiscal year 2006, the School District reported \$2.6 million of program specific revenue compared with the \$2.3 million reported in the prior year. Increases in grant revenues associated with educational programs for special needs students comprised a majority of this increase. For fiscal year 2006, general revenues were used to pay 86.1 percent of the total expenses incurred while 88.2 percent of fiscal year 2005 expenses were funded with general revenues.

The School District's Funds

On the modified accrual basis of accounting, governmental funds had total revenues of \$19.2 million and expenditures of \$21.5 million. The net change in fund balance was most significant in the Building Construction Project fund with an increase of \$12.2 million. The increase is a result of the fund receiving a transfer from the Bond Retirement fund for the proceeds of general obligation bonds issued to finance the construction of a new elementary school. The construction began in fiscal year 2006, therefore, the proceeds of the debt were not fully expended at fiscal year end.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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 2006, the School District amended its general fund budget five times. Adjustments to budgeted expenditures were required due to unanticipated decreases in property taxes and intergovernmental revenues.

For the General Fund, budget basis revenue was \$15.6 million as compared to the original budget estimates of \$16.3 million. This difference included property tax revenue initially budgeted at \$4.0 million with budget basis revenue coming in at \$3.9 million and intergovernmental revenues initially budgeted at \$11.2 million with budget basis revenue coming in at \$10.7 million.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$15.6 million, \$4,949 above actual revenues and \$0.4 million below final budget estimates.

Capital Assets

At the end of fiscal year 2006, the School District had \$19.0 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2006 balances compared to 2005:

**TABLE 4
CAPITAL ASSETS, JUNE 30**

| | 2006 | 2005 |
|--------------------------------|---------------|-------------|
| Land | \$ 348,941 | 348,941 |
| Construction in Progress | 1,972,596 | 37,415 |
| Buildings | 19,391,064 | 19,016,914 |
| Improvements | 2,064,759 | 2,056,277 |
| Furniture and Equipment | 3,027,261 | 3,003,684 |
| Vehicles | 1,879,232 | 1,744,022 |
| Less: Accumulated Depreciation | (9,660,743) | (8,961,957) |
| | \$ 19,023,110 | 17,245,296 |

Overall capital assets increased \$1.8 million from fiscal year 2005. This increase was attributable to the construction of a new elementary school with capitalized costs of \$2.0 million and building energy improvements of \$0.3 million offset by depreciation expense of \$0.7 million. See Note 7 to the financial statements for additional information.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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 2006, this amount was \$302,879 for each set aside requirement. The School District had qualifying disbursements in the amount of \$1.7 million for capital improvements and \$251,362 in textbooks to offset these requirements. In addition, the School District carried forward a deficit of \$67,685 for textbooks to meet the required disbursements for fiscal year 2006. See Note 21 to the financial statements for additional information.

Capital Lease/Debt Administration

At June 30, 2006, the School District had a capital lease with an outstanding balance of \$363,000, of which \$19,000 was due within one year. This lease consists of energy conservation measures capitalized as building improvements within the governmental activities. Principal payments for fiscal year 2006 totaled \$19,000.

At June 30, 2006, the School District had two general obligation bonds outstanding with principal due of \$19.5 million, of which \$320,000 is due within one year. The original principal of the bond was \$7.7 million in voted general obligation bonds for construction, improvement, and renovation of school facilities. During the current fiscal year, \$3.6 million of the voted general obligation bond was advance refunded and new bonds totaling \$17.2 million were issued.

Additional debt issues include a loan for asbestos removal with a balance due at June 30, 2006 of \$27,383, of which \$7,149 is due within one year.

At June 30, 2006, the School District's overall legal debt margin was \$7,276,429 and the unvoted debt margin was \$284,589.

For more detailed information regarding the School District's debt obligations, see Note 14 to the financial statements.

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, 2006*

| | Primary Government | Component Unit |
|--|----------------------------|---------------------------|
| | Governmental Activities | Graham Digital Academy |
| ASSETS: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 4,177,236 | 195,931 |
| Cash and Cash Equivalents in Segregated Accounts | 4,489 | - |
| Investments | 12,990,722 | - |
| Receivables: | | |
| Taxes | 5,633,849 | - |
| Accounts | 2,691 | - |
| Intergovernmental | - | 11,537 |
| Materials and Supplies Inventory | 12,294 | - |
| Prepaid Items | 68,791 | - |
| Deferred Charges - Bond Issuance Costs | 105,045 | - |
| Capital Assets not Subject to Depreciation | 2,321,537 | - |
| Capital Assets, Net of Accumulated Depreciation | <u>16,701,573</u> | <u>190,875</u> |
| Total Assets | <u>42,018,227</u> | <u>398,343</u> |
| LIABILITIES: | | |
| Accounts Payable | 54,953 | 320 |
| Contracts Payable | 875,439 | - |
| Accrued Wages and Benefits | 1,466,939 | - |
| Compensated Absences | 65,187 | - |
| Retainage Payable | 4,489 | - |
| Intergovernmental Payable | 414,829 | 3,511 |
| Unearned Revenue | 5,072,241 | - |
| Noncurrent Liabilities: | | |
| Due Within One Year | 421,704 | - |
| Due In More Than One Year | <u>21,053,246</u> | <u>-</u> |
| Total Liabilities | <u>29,429,027</u> | <u>3,831</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 12,161,137 | 190,875 |
| Restricted for: | | |
| Other Purpose | 412,648 | - |
| Debt Service | 1,216,403 | - |
| Capital Projects | 1,226,709 | - |
| Unrestricted | <u>(2,427,697)</u> | <u>203,637</u> |
| Total Net Assets | <u>\$ 12,589,200</u> | <u>394,512</u> |

See accompanying notes to the basic financial statements.

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

Statement of Activities

For the Fiscal Year Ended June 30, 2006

| | Primary Government | | | Net (Expense) Revenue and Changes in Net Assets | Component Unit Graham Digital Academy |
|--|--------------------|-------------------------|--|--|--|
| | Program Revenues | | | | |
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | |
| Functions/Programs: | | | | | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 7,198,477 | 655,241 | 66,304 | (6,476,932) | |
| Special | 1,870,559 | - | 681,928 | (1,188,631) | |
| Vocational | 3,268 | - | - | (3,268) | |
| Adult/Continuing | 1,033,333 | - | - | (1,033,333) | |
| Support Services: | | | | | |
| Pupils | 900,996 | 188,118 | 6,071 | (706,807) | |
| Instructional Staff | 1,105,567 | - | 32,153 | (1,073,414) | |
| Board of Education | 40,568 | - | - | (40,568) | |
| Administration | 1,300,509 | - | - | (1,300,509) | |
| Fiscal | 607,567 | - | 109,256 | (498,311) | |
| Business | 15,750 | - | - | (15,750) | |
| Operation and Maintenance of Plant | 1,196,894 | - | - | (1,196,894) | |
| Pupil Transportation | 1,404,332 | - | - | (1,404,332) | |
| Central | 87,156 | - | 7,430 | (79,726) | |
| Operation of Non-Instructional Services | 978,099 | 493,580 | 171,194 | (313,325) | |
| Extracurricular Activities | 448,476 | 156,678 | - | (291,798) | |
| Interest and Fiscal Charges | 952,275 | - | - | (952,275) | |
| Total Primary Government | <u>19,143,826</u> | <u>1,493,617</u> | <u>1,074,336</u> | <u>(16,575,873)</u> | |
| Component Unit: | | | | | |
| Graham Digital Academy | \$ <u>315,181</u> | <u>-</u> | <u>504,869</u> | | <u>189,688</u> |
| General Revenues: | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | 3,371,245 | - |
| Special Purposes | | | | 675,798 | - |
| Debt Service | | | | 270,561 | - |
| Capital Outlay | | | | 84,785 | - |
| Grants, Entitlements and Contributions not | | | | | |
| Restricted to Specific Programs | | | | 11,130,276 | - |
| Investment Earnings | | | | 781,327 | 1,658 |
| Other Revenue | | | | 165,679 | 12,546 |
| | | | Total General Revenues | <u>16,479,671</u> | <u>14,204</u> |
| | | | Change in Net Assets | (96,202) | 203,892 |
| | | | Net Assets, Beginning of Year | <u>12,685,402</u> | <u>190,620</u> |
| | | | Net Assets, End of Year | \$ <u>12,589,200</u> | <u>394,512</u> |

See accompanying notes to the basic financial statements.

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

*Balance Sheet
Governmental Funds
June 30, 2006*

| | General Fund | Bond Retirement | Building Construction Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--|-----------------------------------|--------------------------------|
| ASSETS: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 1,174,107 | 1,125,741 | 65,229 | 1,812,159 | 4,177,236 |
| Cash and Cash Equivalents in Segregated Accounts | - | - | 4,489 | - | 4,489 |
| Investments | - | - | 12,990,722 | - | 12,990,722 |
| Receivables: | | | | | |
| Taxes | 4,212,315 | 1,030,285 | - | 391,249 | 5,633,849 |
| Accounts | 2,679 | - | - | 12 | 2,691 |
| Materials and Supplies Inventory | - | - | - | 12,294 | 12,294 |
| Prepaid Items | 68,791 | - | - | - | 68,791 |
| Total Assets | \$ 5,457,892 | 2,156,026 | 13,060,440 | 2,215,714 | 22,890,072 |
| LIABILITIES: | | | | | |
| Accounts Payable | \$ 40,874 | - | - | 14,079 | 54,953 |
| Contracts Payable | - | - | 865,439 | 10,000 | 875,439 |
| Accrued Wages and Benefits | 1,367,286 | - | - | 99,653 | 1,466,939 |
| Retainage Payable | - | - | 4,489 | - | 4,489 |
| Intergovernmental Payable | 369,395 | - | - | 45,434 | 414,829 |
| Compensated Absences Payable | 65,187 | - | - | - | 65,187 |
| Deferred Revenue | 3,909,818 | 965,363 | - | 356,300 | 5,231,481 |
| Total Liabilities | 5,752,560 | 965,363 | 869,928 | 525,466 | 8,113,317 |
| FUND BALANCES: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 135,988 | - | 11,887,291 | 828,410 | 12,851,689 |
| Materials and Supplies Inventory | - | - | - | 12,294 | 12,294 |
| Prepaid Items | 68,791 | - | - | - | 68,791 |
| Property Taxes | 302,497 | 64,922 | - | 34,949 | 402,368 |
| Unreserved, Undesignated: | | | | | |
| General Fund | (801,944) | - | - | - | (801,944) |
| Special Revenue Funds | - | - | - | 468,082 | 468,082 |
| Debt Service Fund | - | 1,125,741 | - | - | 1,125,741 |
| Capital Projects Funds | - | - | 303,221 | 346,513 | 649,734 |
| Total Fund Balances | (294,668) | 1,190,663 | 12,190,512 | 1,690,248 | 14,776,755 |
| Total Liabilities and Fund Balances | \$ 5,457,892 | 2,156,026 | 13,060,440 | 2,215,714 | 22,890,072 |

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, 2006

| | | |
|--|---------------------|---------------------|
| Total Governmental Fund Balances | \$ | 14,776,755 |
| Amounts reported for governmental are different because: | | |
| Some assets used in governmental activities are not financial resources and therefore are not reported in the funds | | |
| Capital Assets | 19,023,110 | |
| Unamortized Bond Costs | <u>105,045</u> | |
| Total | | 19,128,155 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds | | |
| | | 159,240 |
| Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds | | |
| Compensated Absences | (1,125,969) | |
| Asbestos Loan Payable | (27,383) | |
| Capital Leases Payable | (363,000) | |
| Unamortized Premium | (637,002) | |
| Deferred Amount on Refunding | 140,716 | |
| General Obligations Bonds Payable | <u>(19,462,312)</u> | |
| Total | | <u>(21,474,950)</u> |
| Net Assets of Governmental Activities | \$ | <u>12,589,200</u> |

See accompanying notes to the basic financial statements.

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, 2006

| | General Fund | Bond Retirement | Building Construction Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--|-----------------------------------|--------------------------------|
| REVENUES: | | | | | |
| Taxes | \$ 3,496,696 | 730,707 | - | 314,317 | 4,541,720 |
| Intergovernmental | 10,752,207 | 109,256 | - | 1,343,149 | 12,204,612 |
| Investment Earnings | 181,569 | 17,342 | 581,352 | 1,064 | 781,327 |
| Tuition and Fees | 655,241 | - | - | - | 655,241 |
| Charges for Services | - | - | - | 493,580 | 493,580 |
| Extracurricular Activities | - | - | - | 344,796 | 344,796 |
| Miscellaneous | 160,349 | - | - | 5,330 | 165,679 |
| Total Revenues | <u>15,246,062</u> | <u>857,305</u> | <u>581,352</u> | <u>2,502,236</u> | <u>19,186,955</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 6,712,439 | - | - | 75,576 | 6,788,015 |
| Special | 1,225,965 | - | - | 661,851 | 1,887,816 |
| Vocational | - | - | - | 131 | 131 |
| Adult/Continuing | 1,031,690 | - | - | 1,545 | 1,033,235 |
| Support Services: | | | | | |
| Pupils | 721,022 | - | - | 201,374 | 922,396 |
| Instructional Staff | 1,079,017 | - | - | 40,575 | 1,119,592 |
| Board of Education | 40,568 | - | - | - | 40,568 |
| Administration | 1,298,585 | - | - | 10,984 | 1,309,569 |
| Fiscal | 377,769 | 303,276 | 12,997 | 23,258 | 717,300 |
| Business | 15,600 | - | - | - | 15,600 |
| Operation and Maintenance of Plant | 1,309,776 | - | - | 33,423 | 1,343,199 |
| Pupil Transportation | 1,234,190 | - | - | 100,569 | 1,334,759 |
| Central | 77,817 | - | - | 9,339 | 87,156 |
| Operation of Non-Instructional Services | - | - | - | 652,089 | 652,089 |
| Extracurricular Activities | 286,378 | - | - | 158,173 | 444,551 |
| Capital Outlay | - | - | 1,962,597 | 616,517 | 2,579,114 |
| Debt Service: | | | | | |
| Principal | 19,000 | 305,000 | - | 7,149 | 331,149 |
| Interest | 11,306 | 706,379 | 208,150 | - | 925,835 |
| Total Expenditures | <u>15,441,122</u> | <u>1,314,655</u> | <u>2,183,744</u> | <u>2,592,553</u> | <u>21,532,074</u> |
| Excess (Deficiency) of Revenues Over/ (Under) Expenditures | <u>(195,060)</u> | <u>(457,350)</u> | <u>(1,602,392)</u> | <u>(90,317)</u> | <u>(2,345,119)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Premium on Bond Issue | - | 660,594 | - | - | 660,594 |
| Proceeds from Sale of Bonds | - | 17,235,000 | - | - | 17,235,000 |
| Cash Payments to Escrow Agent | - | (3,824,169) | - | - | (3,824,169) |
| Transfers In | - | - | 13,783,150 | - | 13,783,150 |
| Transfers Out | - | (13,783,150) | - | - | (13,783,150) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>288,275</u> | <u>13,783,150</u> | <u>-</u> | <u>14,071,425</u> |
| Net Change in Fund Balances | <u>(195,060)</u> | <u>(169,075)</u> | <u>12,180,758</u> | <u>(90,317)</u> | <u>11,726,306</u> |
| Fund Balance, Beginning of Year | <u>(99,608)</u> | <u>1,359,738</u> | <u>9,754</u> | <u>1,780,565</u> | <u>3,050,449</u> |
| Fund Balance, End of Year | <u>\$ (294,668)</u> | <u>1,190,663</u> | <u>12,190,512</u> | <u>1,690,248</u> | <u>14,776,755</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*
June 30, 2006

Total Net Change in Fund Balances - Total Governmental Funds \$ 11,726,306
Amounts reported for governmental activities in the
statement of activities are different because:

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.

| | | |
|---------------------------|------------------|-----------|
| Capital Asset Additions | 2,491,314 | |
| Current Year Depreciation | <u>(713,500)</u> | |
| Total | | 1,777,814 |

Revenues in the statement of activities that do not provide
current financial resources are not reported as
revenues in the funds. (139,331)

Repayment of long-term obligations is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets. 4,155,318

The issuance of long-term debt provides current financial
resources to governmental funds, but in the statement of
net assets, the debt is reported as a liability (17,895,594)

Some expenses reported in the statement of activities, do not
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

| | | |
|--|-----------------|----------------|
| Accrued Interest Payable | 13,575 | |
| Amortization of Premium | 23,592 | |
| Amortization of Deferred Amount on Refunding | (23,453) | |
| Unamortized Bond Issue Costs | 105,045 | |
| Compensated Absences | 69,976 | |
| Intergovernmental Payable | 130,565 | |
| Accrued Interest on Capital Appreciation Bonds | <u>(40,015)</u> | |
| Total | | <u>279,285</u> |

Change in Net Assets of Governmental Activities \$ (96,202)

See accompanying notes to the basic financial statements.

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

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

| | Scholarship Private- Purpose Trust Funds | Agency Fund |
|--|---|----------------|
| ASSETS: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 123,173 | 41,341 |
| Receivables: | | |
| Notes | <u>28,000</u> | <u>-</u> |
| Total Assets | \$ <u>151,173</u> | <u>41,341</u> |
| LIABILITIES: | | |
| Accounts Payable | \$ 1,000 | - |
| Due to Students | <u>-</u> | <u>41,341</u> |
| Total Liabilities | <u>1,000</u> | <u>41,341</u> |
| NET ASSETS: | | |
| Held in Trust for Scholarships | \$ <u>150,173</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, 2006

| | <u>Scholarship Private- Purpose Trust Funds</u> |
|-------------------------------|---|
| ADDITIONS: | |
| Investment Earnings | \$ 3,010 |
| Miscellaneous | <u>8,707</u> |
| Total Additions | <u>11,717</u> |
| DEDUCTIONS: | |
| Educational Outreach | <u>16,358</u> |
| Total Deductions | <u>16,358</u> |
| Change in Net Assets | (4,641) |
| Net Assets, Beginning of Year | <u>154,814</u> |
| Net Assets, End of Year | \$ <u><u>150,173</u></u> |

See accompanying notes to the basic financial statements.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 103 classified employees, 151 certified teaching personnel, and 9 administrative employees who provide services to 2,200 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, 2006

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 five jointly governed organizations, an insurance purchasing pool and a related organization. These organizations are presented in Notes 16, 17 and 18 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, Bond Retirement and the Building Construction Project 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Retirement – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, long-term debt issued to pay for the local share of the Classroom Facilities Assistance Program.

Building Construction Project Fund – The Building Construction Project Fund is used to maintain the note proceeds for the construction of the new elementary school.

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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2006, but which were levied to finance fiscal year 2007 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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2006.

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 2006, 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 2006. 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, 2006.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year was \$181,569, which included \$129,604 assigned from other School District funds. Interest was also recorded in the Bond Retirement, Building Construction Fund and Other Governmental funds in the amount of \$17,342, \$581,352 and \$1,064, respectively. The private-purpose scholarship fund recorded interest of \$3,010.

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.

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, 2006, 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. 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.

J. Capital Assets and Depreciation

General capital 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of 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.

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------|----------------------------|
| Buildings | 50 years |
| Furniture and Equipment | 5 – 20 years |
| Vehicles | 10 years |

K. 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.

L. 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 represents severance payments to individuals who retired prior to the end of the fiscal year, but did not receive payment until after year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reflected in the fund statements.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. 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.

O. 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, materials and supplies inventory 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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 3 – ACCOUNTABILITY

The following funds have fund equity deficits as of June 30, 2006:

| | <u>Deficit</u> <u>Fund Equity</u> |
|---------------------|--------------------------------------|
| General Fund | \$ 294,668 |
| Other Grants Fund | \$ 3,283 |
| Summer Intervention | \$ 10,868 |
| Title VI-B | \$ 8,690 |
| IDEA | \$ 552 |
| Reducing Class Size | \$ 6,470 |

The fund equity deficits resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2007.

NOTE 4 – DEPOSITS AND INVESTMENTS

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 repayment of all public monies deposited with the institution.

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies 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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the School District’s deposits may not be returned to it. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end, the carrying amount of the School District’s deposits was \$4,340,223 and the bank balance was \$4,643,548. Of the bank balance, \$316,271 was covered by federal depository insurance and \$4,327,277 was collateralized with securities held by the pledging financial institution’s agent but not in the School District’s name.

Investments: Investments are required to be reported at fair value. The Ohio Revised Code authorizes the School District to invest in United States and State of Ohio Bonds, notes and other obligations; bank certificate of deposits; banker’s acceptances; commercial paper notes rated prime and issued by United States Corporations; and STAROhio. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. During fiscal year 2006, the District’s invested in Federal Home Loan Bank Bonds and Notes, Federal Home Loan Mortgage Corporation Bonds and Notes, Federal National Mortgage Association Notes and STAROhio. There is no custodial credit risk associated with the investments because they are registered in the name of the District.

As of June 30, 2006, the School District had the following investments:

| | <u>Fair Value</u> | <u>Percent of Total Portfolio</u> | <u>Credit Rating</u> | <u>Weighted Average Maturity</u> |
|---|-----------------------|---|--------------------------|--|
| Federal Home Loan Bank (FHLB) | 2,617,818 | 20.14% | AAA | 0.62 years |
| FHLB Discount Notes | 1,695,580 | 13.05% | A-1+ | 0.06 years |
| Federal National Mortgage Association (FNMA) Discount Notes | 4,915,805 | 37.82% | A-1+ | 0.60 years |
| Federal Home Loan Mortgage Corporation (FHLMC) | 1,820,624 | 14.01% | AAA | 0.70 years |
| FHLMC Discount Notes | 1,940,896 | 14.93% | A-1+ | 0.38 years |
| STAROhio | <u>6,016</u> | <u>0.05%</u> | AAAm | N/A |
| Total Investments | <u>12,996,738</u> | <u>100.00%</u> | | |
| Portfolio Weighted Average Maturity | | | | <u>2.36 years</u> |

Component Unit: At fiscal year end, the carrying amount of the Academy's deposits was \$195,931 and the bank balance was \$195,931. Of the bank balance \$100,000 was covered by federal depository and \$95,931 was uninsured. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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.

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 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2005, on the assessed value as of January 1, 2005, 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. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006, and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. 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 2006 taxes were collected are:

| | <u>2006 First Half Collections</u> | | <u>2005 Second Half Collections</u> | |
|---|------------------------------------|----------------|-------------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 188,740,790 | 85.46% | 185,257,550 | 84.59% |
| Public Utility | 7,512,990 | 3.40% | 7,704,030 | 3.52% |
| Tangible Personal Property | <u>24,606,926</u> | <u>11.14%</u> | <u>26,045,851</u> | <u>11.89%</u> |
| Total Assessed Value | <u>\$ 220,860,706</u> | <u>100.00%</u> | <u>219,007,431</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | <u>\$34.10</u> | | <u>\$31.85</u> | |

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – PROPERTY TAXES (Continued)

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2006. 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, 2006, was \$302,497 and \$64,992 in the General Fund and Bond Retirement funds, respectively. Other governmental funds had \$34,949 available as an advance.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2006, consisted of current and delinquent property taxes and student fees. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the Graham Local School District for the fiscal year ended June 30, 2006, is as follows:

| | <u>Balance,</u> <u>6/30/2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance,</u> <u>6/30/2006</u> |
|---|-------------------------------------|-------------------------|------------------------|-------------------------------------|
| <u>Capital Assets, not being depreciated</u> | | | | |
| Land | \$ 348,941 | - | - | 348,941 |
| Construction in Progress | 37,415 | 1,972,596 | (37,415) | 1,972,596 |
| | <u>386,356</u> | <u>1,972,596</u> | <u>(37,415)</u> | <u>2,321,537</u> |
| <u>Capital Assets, being depreciated</u> | | | | |
| Buildings | 19,016,914 | 374,150 | - | 19,391,064 |
| Improvements | 2,056,277 | 8,482 | - | 2,064,759 |
| Furniture and Equipment | 3,003,684 | 38,291 | (14,714) | 3,027,261 |
| Vehicles | 1,744,022 | 135,210 | - | 1,879,232 |
| | <u>25,820,897</u> | <u>556,133</u> | <u>(14,714)</u> | <u>26,362,316</u> |
| <u>Less: Accumulated Depreciation</u> | | | | |
| Buildings | (4,161,197) | (390,076) | - | (4,551,273) |
| Improvements | (1,919,546) | (56,907) | - | (1,976,453) |
| Furniture and Equipment | (1,595,580) | (166,742) | 14,714 | (1,747,608) |
| Vehicles | (1,285,634) | (99,775) | - | (1,385,409) |
| | <u>(8,961,957)</u> | <u>(713,500) *</u> | <u>14,714</u> | <u>(9,660,743)</u> |
| Capital Assets, net | \$ <u>17,245,296</u> | <u>1,815,229</u> | <u>(37,415)</u> | <u>19,023,110</u> |

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 – CAPITAL ASSETS (Continued)

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

| | | | |
|---|----|----------------|--|
| Instruction: | | | |
| Regular | \$ | 481,708 | |
| Special | | 2,564 | |
| Vocational | | 4,828 | |
| Support Services: | | | |
| Pupils | | 5,310 | |
| Instructional Staff | | 13,328 | |
| Administration | | 2,285 | |
| Fiscal | | 1,466 | |
| Business | | 150 | |
| Operation and Maintenance of Plant | | 13,605 | |
| Pupil Transportation | | 97,309 | |
| Operation of Non-Instructional Services | | 86,768 | |
| Extracurricular Activities | | 4,179 | |
| | \$ | <u>713,500</u> | |

Capital asset activity for the Graham Digital Academy for the fiscal year ended June 30, 2006, is as follows:

| | Balance 6/30/2005 | Additions | Reductions | Balance 6/30/2006 |
|---|----------------------|-----------------|------------|----------------------|
| <u>Capital Assets, being depreciated:</u> | | | | |
| Office Equipment and Computers | \$ 93,037 | 140,366 | - | \$ 233,403 |
| Less: Accumulated Depreciation | <u>(16,459)</u> | <u>(26,069)</u> | - | <u>(42,528)</u> |
| Capital Assets, net | <u>\$ 76,578</u> | <u>114,297</u> | - | <u>\$ 190,875</u> |

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, 2006, the balances of the outstanding loans were \$28,000.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 2006, 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.

B. Workers' Compensation

For fiscal year 2006, 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$314,850, \$274,882, and \$172,768, respectively; 50.31 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

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 divided by 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,078,432, \$1,042,931, and \$968,502, respectively; 83.11 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$77,031 for fiscal year 2006.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$101,160.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

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.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 – NOTE TRANSACTIONS

During the current fiscal year, the School District retired \$13,575,000 in bond anticipation notes. The notes were to finance start-up costs related to the construction of the new elementary school and matured June 1, 2006.

| | Interest Rate | Amount Outstanding June 30, 2005 | Increase | Decrease | Amount Outstanding June 30, 2006 |
|--------------------------------|------------------|--|----------|------------|--|
| Bond Anticipation Notes - 2005 | 4.00% | \$ 13,575,000 | - | 13,575,000 | - |

NOTE 14 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

| | Amount Outstanding June 30, 2005 | Increase | Decrease | Amount Outstanding June 30, 2006 | Amount Due Within One Year |
|--|--|---------------|--------------|--|----------------------------------|
| Long-Term Obligations: | | | | | |
| Asbestos Removal Loan, 0.00% | \$ 34,532 | \$ - | \$ 7,149 | \$ 27,383 | \$ 7,149 |
| General Obligation Bonds: | | | | | |
| 1998 School Facilities Issue: | | | | | |
| Serial and Term Bonds 3.75% - 5.00% | 5,715,000 | - | 3,965,000 | 1,750,000 | 320,000 |
| Capital Appreciation Bonds 5.00% - 5.05% | 437,297 | 40,015 | - | 477,312 | - |
| 2006 School Improvement Bonds: | | | | | |
| Serial and Term Bonds 2.95% - 4.46% | - | 16,920,000 | - | 16,920,000 | - |
| Capital Appreciation Bonds 4.30% - 4.37% | - | 315,000 | - | 315,000 | - |
| Deferred Amounts: | | | | | |
| Bond Premium | - | 660,594 | 23,592 | 637,002 | - |
| Deferred Amount on Refunding | - | (164,169) | (23,453) | (140,716) | - |
| Capital Lease Payable | 382,000 | - | 19,000 | 363,000 | 19,000 |
| Compensated Absences | 1,195,944 | 725,832 | 795,807 | 1,125,969 | 75,555 |
| Total Governmental Activities | \$ 7,764,773 | \$ 18,497,272 | \$ 4,787,095 | \$ 21,474,950 | \$ 421,704 |

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 2010. The loan is being retired from the Permanent Improvement Capital Projects Fund.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the asbestos removal loan at June 30, 2006, were as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2007 | \$ 7,149 | \$ - | \$ 7,149 |
| 2008 | 7,149 | - | 7,149 |
| 2009 | 7,149 | - | 7,149 |
| 2010 | 5,936 | - | 5,936 |
| Total | <u>\$ 27,383</u> | <u>\$ -</u> | <u>\$ 27,383</u> |

General Obligation 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 capital appreciation bonds will mature in fiscal years 2012 and 2013. The maturity amount of the capital appreciation bonds is \$800,000. For fiscal year 2006 \$40,015 was accreted for a total bond value of \$477,312.

During fiscal year 2006, the School District issued \$17,235,000 of general obligation bonds to refinance \$13,575,000 in bond anticipation notes and to advance refund \$3,660,000 of the 1998 school facilities issue. These bonds include serial and term bonds and capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2014 and 2015. The maturity amount of the capital appreciation bonds is \$775,000. For fiscal year 2006 no accretion was required.

Principal and interest requirements to retire outstanding general obligation debt at June 30, 2006 are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|----------------------|----------------------|
| 2007 | \$ 320,000 | \$ 852,961 | \$ 1,172,961 |
| 2008 | 385,000 | 837,555 | 1,222,555 |
| 2009 | 435,000 | 819,922 | 1,254,922 |
| 2010 | 430,000 | 801,046 | 1,231,046 |
| 2011 | 470,000 | 681,104 | 1,151,104 |
| 2012-2016 | 2,572,312 | 3,708,150 | 6,280,462 |
| 2017-2021 | 5,000,000 | 2,979,339 | 7,979,339 |
| 2022-2026 | 3,085,000 | 2,062,258 | 5,147,258 |
| 2027-2031 | 3,915,000 | 1,219,738 | 5,134,738 |
| 2032-2034 | 2,850,000 | 218,250 | 3,068,250 |
| | <u>\$ 19,462,312</u> | <u>\$ 14,180,323</u> | <u>\$ 33,642,635</u> |

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 14 – LONG-TERM OBLIGATIONS (Continued)

Advance Refunding

The School District issued \$3,660,000 of general obligation bonds to provide resources to purchase U.S. Government securities that were placed, along with premiums associated with the sale of the bonds, in an irrevocable trust for the purpose of generating resources for the future debt service payments of \$3,660,000 of the 1998 School Facilities general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability associated with these bonds has been removed from the statement of net assets. At June 30, 2006, \$2,055,000 of the 1998 school facilities issue was outstanding and not considered defeased. The reacquisition price exceeded the net carrying amount of the old debt by \$164,169. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next twenty-nine years by \$141,166 and resulted in an economic gain of \$102,147.

Other Long-Term Obligations

Compensated absences will be paid from the fund from which the employees' salaries are paid. The capital lease obligations are being paid from the General Fund.

The School District's overall debt margin was \$7,276,429 with an unvoted debt margin of \$284,589 at June 30, 2006.

NOTE 15 – CAPITAL LEASE – LESSEE DISCLOSURE

The School District entered into a lease-purchase agreement for the purpose of financing the acquisition and installation of energy conservation measures consisting of software enhancements at the middle and high schools and an ice storage system at the middle school. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. This lease agreement is reported in the Permanent Improvement Fund as other financing sources, inception of capital lease. As of June 30, 2006, all expenditures were made in conjunction with the lease agreement, and the items have been capitalized. There were \$19,000 in principal payments made on this lease in fiscal year 2006.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 – CAPITAL LEASE – LESSEE DISCLOSURE (Continued)

The following is a schedule of future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006.

| Fiscal Year Ended June 30, | | |
|---|----|----------------|
| 2007 | \$ | 35,391 |
| 2008 | | 35,543 |
| 2009 | | 34,653 |
| 2010 | | 34,762 |
| 2011 | | 34,830 |
| 2012-2016 | | 173,672 |
| 2017-2020 | | 139,568 |
| Total | | 488,419 |
| Less: Amount Representing Interest | | (122,165) |
| Amount Representing Participant Cost Component | | (3,254) |
| Present Value of Net Minimum Lease Payments | \$ | <u>363,000</u> |

NOTE 16 – 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.

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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

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, Ken Swink, who serves as Director, 303 Corporate Center Dr, Suite 208, Vandalia, Ohio 45377.

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.

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 17 – 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.

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 17 – INSURANCE POOL (Continue)

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 18 – 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.

NOTE 19 – INTERFUND TRANSFERS

During fiscal year 2006 the School District transferred bond proceeds used to refinance bond anticipation notes from the debt service fund to the fund in which the liability was recorded in the prior year.

NOTE 20 - 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, 2006.

B. Litigation

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

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY, OHIO

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 21 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. Amounts not spent by year-end or reduced by offsetting credits must be held in cash at year-end and carried forward to be used for the same purpose in future years. Excess of offsets and qualifying disbursements over the set-aside requirement during the year for textbooks and other instructional materials may carry forward to the next year to reduce the set-aside requirement of future years. Excess of offsets and qualifying disbursements in the capital acquisition set-aside requirement may be carried forward if the excess is a result of spending bond or note proceeds. 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.

| | <u>Textbooks</u> | <u>Capital Acquisition</u> |
|--|--------------------|--------------------------------|
| Set-aside Cash Balance, As of June 30, 2005 | \$ (67,685) | \$ 57,541 |
| Current Year Set-aside Requirement | 302,879 | 302,879 |
| Qualifying Disbursements | <u>(251,362)</u> | <u>(1,703,026)</u> |
| Total | <u>\$ (16,168)</u> | <u>\$(1,342,606)</u> |
| Balance Carried Forward to FY 2007 | <u>\$ (16,168)</u> | <u>\$(1,342,606)</u> |

NOTE 22 – CONTRACT COMMITMENTS

At June 30, 2006, the District had the following contract commitments as a result of the District's construction of a new elementary school.

| <u>Contractor</u> | <u>Amount</u> |
|-----------------------|----------------------|
| Central Fire | 198,000 |
| Library Design | 46,500 |
| Regal | 570,612 |
| Peterson Construction | 9,113,000 |
| Slagle Mechanical | 1,249,000 |
| Frost | 1,819,208 |
| C&T Design | 314,560 |
| Buehrer Group | 255,709 |
| | <u>\$ 13,566,589</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, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|--------------------|-------------------|-------------------|-------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 4,026,447 | 4,026,447 | 3,861,959 | (164,488) |
| Intergovernmental | 11,210,163 | 11,210,163 | 10,752,207 | (457,956) |
| Interest | 186,965 | 186,965 | 179,327 | (7,638) |
| Tuition and Fees | 687,322 | 687,322 | 659,244 | (28,078) |
| Miscellaneous | 167,508 | 167,508 | 165,630 | (1,878) |
| <i>Total Revenues</i> | <u>16,278,405</u> | <u>16,278,405</u> | <u>15,618,367</u> | <u>(660,038)</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,922,292 | 6,803,147 | 6,749,145 | 54,002 |
| Special | 1,330,649 | 1,212,498 | 1,201,399 | 11,099 |
| Vocational | - | 2,300 | - | 2,300 |
| Adult/Continuing | 974,987 | 1,047,987 | 1,045,681 | 2,306 |
| Other | 2,000 | 2,000 | 1,000 | 1,000 |
| Support Services: | | | | |
| Pupils | 761,976 | 794,620 | 794,156 | 464 |
| Instructional Staff | 1,182,938 | 1,163,673 | 1,070,772 | 92,901 |
| Board of Education | 67,205 | 60,946 | 57,705 | 3,241 |
| Administration | 1,296,874 | 1,324,365 | 1,303,595 | 20,770 |
| Fiscal | 419,503 | 390,283 | 371,536 | 18,747 |
| Business | 167,851 | 149,655 | 16,900 | 132,755 |
| Operation and Maintenance of Plant | 1,495,400 | 1,404,513 | 1,346,891 | 57,622 |
| Pupil Transportation | 1,308,823 | 1,282,899 | 1,258,578 | 24,321 |
| Central | 127,046 | 108,161 | 83,919 | 24,242 |
| Extracurricular Activities | 295,968 | 304,723 | 291,733 | 12,990 |
| Debt Service: | | | | |
| Principal | - | 19,000 | 19,000 | - |
| Interest | 7,250 | 11,500 | 11,306 | 194 |
| <i>Total Expenditures</i> | <u>16,360,762</u> | <u>16,082,270</u> | <u>15,623,316</u> | <u>458,954</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(82,357)</u> | <u>196,135</u> | <u>(4,949)</u> | <u>(201,084)</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Operating Transfers Out | <u>(5,000)</u> | <u>(5,000)</u> | <u>-</u> | <u>(5,000)</u> |
| <i>Total Other Financing Sources (Uses)</i> | <u>(5,000)</u> | <u>(5,000)</u> | <u>-</u> | <u>(5,000)</u> |
| Net Change in Fund Balance | (87,357) | 191,135 | (4,949) | (206,084) |
| Fund Balance, Beginning of Year | 823,737 | 823,737 | 823,737 | - |
| Prior Year Encumbrances Appropriated | 178,583 | 178,583 | 178,583 | - |
| Fund Balance, End of Year | \$ <u>914,963</u> | <u>1,193,455</u> | <u>997,371</u> | <u>(206,084)</u> |

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, 2006

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 2006.

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

Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2006

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, 2006

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

| | <u>General Fund</u> |
|-----------------------------|-------------------------|
| GAAP Basis | \$ (195,060) |
| Revenue Accruals | 372,305 |
| Expenditure Accruals | (358,931) |
| Encumbrances | <u>176,737</u> |
| Budget (Non-GAAP) Basis | <u>\$ (4,949)</u> |

Graham Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

| <u>Federal Grantor/Program Title</u> | <u>Pass Through Entity Number</u> | <u>Federal CFDA Number</u> | <u>Award Receipts</u> | <u>Award Disbursements</u> |
|--|---|------------------------------------|---------------------------|--------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Food Distribution Program | NN-N1 | 10.550 | 40,538 | 40,538 |
| Team Nutrition | TW-NT | 10.574 | 490 | 490 |
| National School Lunch Program | LL-P4 | 10.555 | <u>166,423</u> | <u>166,423</u> |
| Total U.S. Department of Agriculture | | | <u>207,451</u> | <u>207,451</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Title I Grant | C1-S1 | 84.010 | 170,867 | 164,486 |
| Special Education Cluster: | | | | |
| Title VI-B Grant | 6B-SF | 84.027 | 493,976 | 448,011 |
| Preschool Disabilities Grant | PG-S1 | 84.173 | <u>17,184</u> | <u>14,784</u> |
| Total Special Education Cluster | | | <u>511,160</u> | <u>462,795</u> |
| Drug Free Schools and Communities | DR-S1 | 84.186 | 8,113 | 7,270 |
| Title VI - Innovative Education Grant | C2-S1 | 84.298 | 6,071 | 6,071 |
| Title II-D - Technology | TJ-S1 | 84.318 | 3,107 | 3,084 |
| Improving Teacher Quality | TR-S1 | 84.367 | <u>60,825</u> | <u>57,243</u> |
| Total U.S. Department of Education | | | <u>760,143</u> | <u>700,949</u> |
| TOTAL FEDERAL AWARD EXPENDITURES | | | <u>967,594</u> | <u>908,400</u> |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAING COUNTY, OHIO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICES

The accompanying schedule of expenditures of federal awards is a summary activity of all federal awards programs of the Graham Local School District. The schedule has been prepared on the cash basis of accounting.

2. U.S. DEPARTMENT OF AGRICULTURE PROGRAMS

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported on the schedule of expenditures of federal awards at the 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, 2006, the District had no significant food commodities in inventory.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Education
Graham Local School District
370 E Main Street
St. Paris, Ohio 43072

We have audited the financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated January 4, 2007.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio

January 4, 2007



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133.

Board of Education
Graham Local School District
370 E Main Street
St. Paris, Ohio 43072

Compliance

We have audited the compliance of Graham Local School District (the District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Graham Local School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 4, 2007

GRAHAM LOCAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 JUNE 30, 2006

1. SUMMARY OF AUDITORS' RESULTS

| | | |
|--------------|--|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under §.510? | No |
| (d)(1)(vii) | Major Programs (list): | <u>Special Education Cluster:</u> CFDA #84.027 – Title IV-B CFDA #84.173 – Preschool Disabilities Grant |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: All others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None

3. FINDINGS RELATED TO THE DISTRICT'S FEDERAL AWARDS

None

GRAHAM LOCAL SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2006

None



Mary Taylor, CPA
Auditor of State

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
MARCH 29, 2007**