



**Auditor of State
Betty Montgomery**

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gorham Fayette Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30 2004, 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, each major fund, and the aggregate remaining fund information of the Gorham Fayette Local School District, Fulton County, Ohio, as of June 30 2004, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its policy regarding capital asset capitalization.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

December 22, 2004

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased \$92,649.
- General revenues accounted for \$4,484,774, or 87 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$688,857 or 13 percent of total revenues of \$5,173,631.
- The District's major funds included the general fund and the bond debt service fund. The general fund had \$4,247,670 in revenues and other financing sources and \$4,375,891 in expenditures and other financing uses. The general fund's balance decreased \$128,221 from the prior fiscal year. The bond retirement fund had \$228,008 in revenues and other financing sources and \$184,631 in expenditures and other financing uses. The bond debt service fund's balance increased \$43,377 from the prior fiscal year.
- The revenue generated from the bond retirement service fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
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(Continued)**

spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the general fund is by far the most significant fund. The general fund and the bond retirement fund are the only two major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
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the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Table 1
Net Assets
Governmental Activities

	2004
Assets:	
Current and Other Assets	\$ 2,951,459
Capital Assets, Net	3,361,129
<i>Total Assets</i>	<i>6,312,588</i>
 Liabilities:	
Current and Other Liabilities	1,941,973
Long-Term Liabilities	2,377,582
<i>Total Liabilities</i>	<i>4,319,555</i>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,256,996
Restricted	318,094
Unrestricted	417,943
<i>Total</i>	<i>\$ 1,993,033</i>

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 286,652
Operating Grants, Contributions and Interest	393,130
Capital Grants and Contributions	9,075
<i>Total Program Revenues</i>	<i>688,857</i>

(Continued)

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Table 2 (Continued)
Change in Net Assets
Governmental Activities

	2004
General Revenues:	
Property Taxes	1,417,589
Income Taxes	353,758
Grants and Entitlements	2,308,632
Investment Earnings	14,338
Gifts and Donations	1,775
Miscellaneous	388,682
<i>Total General Revenues</i>	4,484,774
<i>Total Revenues</i>	5,173,631
 Expenses:	
Instruction	2,698,280
Support Services:	
Pupils	231,689
Instructional Staff	291,768
Board of Education	57,565
Administration	422,915
Fiscal	180,237
Business	
Operation and Maintenance of Plant	421,907
Pupil Transportation	180,154
Central	31,964
Non-Instructional	297,945
Extracurricular Activities	191,952
Capital Outlay	146,779
Interest and Fiscal Charges	113,125
<i>Total Expenses</i>	5,266,280
<i>Decrease in Net Assets</i>	\$ (92,649)

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to 2003 have not been presented since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$ 2,698,280	\$ 2,238,262
Support Services:		
Pupils	231,689	229,725
Instructional Staff	291,768	281,931
Board of Education	57,565	57,565
Administration	422,915	422,915
Fiscal	180,237	180,237
Operation and Maintenance of Plant	421,907	421,907
Pupil Transportation	180,154	180,154
Central	31,964	31,964
Non-Instructional	297,945	157,818
Extracurricular Activities	191,952	115,041
Capital Outlay	146,779	146,779
Interest and Fiscal Charges	113,125	113,125
<i>Total Expenses</i>	<u>\$ 5,266,280</u>	<u>\$ 4,577,423</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 83 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. The remaining 13 percent are derived from tuition and fees, specific grants, and donations.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Fund. Total governmental funds had revenues of \$5,108,780 and expenditures of \$5,223,464. The net negative change of \$114,684 in fund balance for the year indicates that the District had difficulty in meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$4,568,995 while actual expenditures were \$4,313,012. The \$255,983 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$3,361,129 invested in capital assets (net of accumulated depreciation) for governmental activities which was 3 percent lower than at the beginning of the year.

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

Debt

At June 30, 2004, the District had \$2,104,133 in school improvement general obligation bonds for building improvements which was 3 percent lower than at the beginning of the year. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2023. The bonds are being retired through the Bond Retirement fund.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

At June 30, 2004, the District's overall legal debt margin was \$1,672,951, with an un-voted debt margin of \$41,968.

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

Current Issues

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

The District is currently operating in the second year of the state biennium budget. According to the 2004 Local District Report Card, 44.9 percent of district revenue sources are from local funds, 50.6 percent from state funds and the remaining 4.5 percent is from federal funds. The total expenditure per pupil was calculated at \$9,033.

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

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

Contacting the District's Financial Management

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,245,008
Materials and Supplies Inventory	9,954
Accrued Interest Receivable	208
Intergovernmental Receivable	9,748
Prepaid Items	4,537
Taxes Receivable	1,535,585
Income Taxes Receivable	146,419
Capital Assets:	
Non-Depreciable Capital Assets	84,100
Depreciable Capital Assets, net	<u>3,277,029</u>
<i>Total Assets</i>	<u><u>6,312,588</u></u>
Liabilities	
Accounts Payable	12,688
Accrued Wages and Benefits	388,388
Intergovernmental Payable	83,086
Matured Compensated Absences Payable	77,303
Deferred Revenue	1,380,508
Long-Term Liabilities:	
Due Within One Year	80,000
Due in More Than One Year	<u>2,297,582</u>
<i>Total Liabilities</i>	<u><u>4,319,555</u></u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,256,996
Restricted for Debt Service	269,422
Restricted for Capital Outlay	11,555
Restricted for Other Purposes	37,117
Unrestricted	<u>417,943</u>
<i>Total Net Assets</i>	<u><u>\$ 1,993,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
Instruction:					
Regular	\$ 2,119,361	\$ 114,129	\$ 233,342	\$ 9,075	\$ (1,762,815)
Special	466,813		103,472		(363,341)
Vocational	93,288				(93,288)
Other	18,818				(18,818)
Support Services:					
Pupils	231,689		1,964		(229,725)
Instructional Staff	291,768		9,837		(281,931)
Board of Education	57,565				(57,565)
Administration	422,915				(422,915)
Fiscal	180,237				(180,237)
Operation and Maintenance of Plant	421,907				(421,907)
Pupil Transportation	180,154				(180,154)
Central	31,964				(31,964)
Operation of Non-Instructional Services	297,945	95,612	44,515		(157,818)
Extracurricular Activities	191,952	76,911			(115,041)
Capital Outlay	146,779				(146,779)
Debt Service:					
Interest and Fiscal Charges	113,125				(113,125)
Totals	\$ 5,266,280	\$ 286,652	\$ 393,130	\$ 9,075	(4,577,423)

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	1,204,256
Property Taxes, Levied for Debt Service	213,333
Income Taxes	353,758
Grants and Entitlements not Restricted to Specific Programs	2,308,632
Gifts and Donations	1,775
Investment Earnings	14,338
Miscellaneous	388,682
Total General Revenues	4,484,774
Change in Net Assets	(92,649)
<i>Net Assets Beginning of Year</i>	<u>2,085,682</u>
<i>Net Assets End of Year</i>	<u><u>\$ 1,993,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 933,348	\$ 243,554	\$ 68,106	\$ 1,245,008
Materials and Supplies Inventory	6,118		3,836	9,954
Accrued Interest Receivable	208			208
Intergovernmental Receivable			9,748	9,748
Prepaid Items	4,537			4,537
Taxes Receivable	1,304,600	230,985		1,535,585
Income Taxes Receivable	146,419			146,419
	<u>\$ 2,395,230</u>	<u>\$ 474,539</u>	<u>\$ 81,690</u>	<u>\$ 2,951,459</u>
<i>Total Assets</i>				
Liabilities				
Accounts Payable	\$ 8,318			\$ 8,318
Accrued Wages and Benefits	361,680		\$ 31,078	392,758
Intergovernmental Payable	45,823		1,940	47,763
Matured Compensated Absences Payable	77,303			77,303
Deferred Revenue	1,267,795	\$ 218,496		1,486,291
	<u>1,760,919</u>	<u>\$ 218,496</u>	<u>33,018</u>	<u>2,012,433</u>
<i>Total Liabilities</i>				
Fund Balances				
Reserved:				
Reserved for Encumbrances	25,602		451	26,053
Reserved for Prepaid Items	4,537			4,537
Reserved for Property Taxes	62,473	12,489		74,962
Reserved for Materials and Supplies Inventory	6,118		3,836	9,954
Unreserved, Undesignated, Reported in:				
General Fund	535,581			535,581
Special Revenue Funds			32,830	32,830
Debt Service Funds		243,554		243,554
Capital Projects Funds			11,555	11,555
	<u>634,311</u>	<u>256,043</u>	<u>48,672</u>	<u>939,026</u>
<i>Total Fund Balances</i>				
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,395,230</u>	<u>\$ 474,539</u>	<u>\$ 81,690</u>	<u>\$ 2,951,459</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances	\$ 939,026
<i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	3,361,129
Intergovernmental Receivable that do not provide financial resources are not reported as revenues in governmental fund.	105,783
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.	(35,323)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	
General Obligation Bonds Payable	(2,104,133)
Compensated Absences Payable	(273,449)
	<u>(2,377,582)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 1,993,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 1,165,049	\$ 204,215		\$ 1,369,264
Income Tax	328,090			328,090
Intergovernmental	2,257,853	23,793	\$ 429,215	2,710,861
Interest	14,241		97	14,338
Tuition and Fees	112,488			112,488
Rent	1,341			1,341
Extracurricular Activities			76,911	76,911
Gifts and Donations	925		850	1,775
Customer Sales and Services	300		95,612	95,912
Miscellaneous	367,233		21,299	388,532
<i>Total Revenues</i>	<u>4,247,520</u>	<u>228,008</u>	<u>623,984</u>	<u>5,099,512</u>
Expenditures				
Current:				
Instruction:				
Regular	2,015,360		117,724	2,133,084
Special	427,679		41,399	469,078
Vocational	78,569			78,569
Other	18,818			18,818
Support Services:				
Pupils	171,897		65,905	237,802
Instructional Staff	236,801		42,625	279,426
Board of Education	57,565			57,565
Administration	411,674		1,070	412,744
Fiscal	175,617	4,941		180,558
Operation and Maintenance of Plant	372,930			372,930
Pupil Transportation	243,232		611	243,843
Central	25,403		6,561	31,964
Operation of Non-Instructional Services	2,550		291,573	294,123
Extracurricular Activities	107,832		83,661	191,493
Capital Outlay	20,964		11,695	32,659
Debt Service:				
Principal		80,000		80,000
Interest		99,690		99,690
<i>Total Expenditures</i>	<u>4,366,891</u>	<u>184,631</u>	<u>662,824</u>	<u>5,214,346</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(119,371)</u>	<u>43,377</u>	<u>(38,840)</u>	<u>(114,834)</u>
Other Financing Sources and Uses:				
Transfers In			9,118	9,118
Proceeds from Sale of Fixed Assets	150			150
Transfers Out	(9,000)		(118)	(9,118)
<i>Total Other Financing Sources and Uses</i>	<u>(8,850)</u>		<u>9,000</u>	<u>150</u>
<i>Net Change in Fund Balances</i>	<u>(128,221)</u>	<u>43,377</u>	<u>(29,840)</u>	<u>(114,684)</u>
<i>Fund Balance at Beginning of Year</i>	<u>762,532</u>	<u>212,666</u>	<u>78,512</u>	<u>1,053,710</u>
<i>Fund Balance at End of Year</i>	<u>\$ 634,311</u>	<u>\$ 256,043</u>	<u>\$ 48,672</u>	<u>\$ 939,026</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (114,684)

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

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

Capital Outlay - Depreciable Capital Assets	103,867	
Depreciation	(205,262)	
		(101,395)

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

Loss on Disposal of Capital Assets		(8,919)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(24)	
Delinquent Property Taxes	48,325	
Income Taxes	25,668	
		73,969

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		80,000
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Interest charges reported on the statement of activities, that do no require the use of current financial resources, are not reported as expenditures in governmental funds.		(13,435)
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(Continued)

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

Intergovernmental Payable	(5,923)	
Compensated Absences Payable	<u>(2,262)</u>	
		(8,185)
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ (92,649)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Property and Other Local Taxes	\$ 1,150,878	\$ 1,150,878	\$ 1,224,054	\$ 73,176
Income Tax	350,000	350,000	342,102	(7,898)
Intergovernmental	2,298,200	2,298,200	2,257,853	(40,347)
Interest	20,000	20,000	14,491	(5,509)
Tuition and Fees	123,000	123,000	112,613	(10,387)
Rent	1,000	1,000	1,341	341
Gifts and Donations	3,000	3,000	925	(2,075)
Customer Sales and Services	1,000	1,000	300	(700)
Miscellaneous	343,745	343,745	366,888	23,143
<i>Total Revenues</i>	<u>4,290,823</u>	<u>4,290,823</u>	<u>4,320,567</u>	<u>29,744</u>
Expenditures				
Current:				
Instruction:				
Regular	1,776,631	2,001,450	1,940,348	61,102
Special	385,471	430,076	426,465	3,611
Vocational	76,564	78,859	75,860	2,999
Other	32,650	30,325	19,556	10,769
Support Services:				
Pupils	193,441	189,954	174,856	15,098
Instructional Staff	223,498	270,892	240,931	29,961
Board of Education	106,551	77,700	76,515	1,185
Administration	406,186	429,665	403,637	26,028
Fiscal	172,013	184,262	173,662	10,600
Operation and Maintenance of Plant	379,062	416,746	378,867	37,879
Pupil Transportation	244,512	262,469	236,648	25,821
Central	27,661	28,550	25,435	3,115
Operation of Non-Instructional Services				
Community Services	2,000	3,000	2,550	450
Extracurricular Activities	91,120	108,375	107,718	657
Capital Outlay	12,900	24,300	20,964	3,336
<i>Total Expenditures</i>	<u>4,130,260</u>	<u>4,536,623</u>	<u>4,304,012</u>	<u>232,611</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>160,563</u>	<u>(245,800)</u>	<u>16,555</u>	<u>262,355</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	100	100	150	50
Refund of Prior Year Expenditures	5,000	5,000	4,368	(632)
Transfers Out	(10,000)	(30,872)	(9,000)	21,872
Refund of Prior Year Receipts	(500)	(500)		500
Advances Out	(5,000)	(1,000)		1,000
<i>Total Other Financing Sources and Uses</i>	<u>(10,400)</u>	<u>(27,272)</u>	<u>(4,482)</u>	<u>22,790</u>
<i>Net Change in Fund Balances</i>	150,163	(273,072)	12,073	285,145
<i>Fund Balance at Beginning of Year</i>	846,431	846,431	846,431	
<i>Prior Year Encumbrances Appropriated</i>	39,873	39,873	39,873	
<i>Fund Balance at End of Year</i>	<u>\$ 1,036,467</u>	<u>\$ 613,232</u>	<u>\$ 898,377</u>	<u>\$ 285,145</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	Private Purpose Trust	Agency Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 15,175	\$ 21,443
<i>Total Assets</i>	15,175	21,443
Liabilities		
Undistributed Monies		21,443
<i>Total Liabilities</i>		21,443
Net Assets		
Held in Trust for Scholarships	15,175	
<i>Total Net Assets</i>	\$ 15,175	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

	<u>Private Purpose Trust</u>
Additions	
Interest	<u>\$ 156</u>
<i>Total Additions</i>	<u>156</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>563</u>
<i>Total Deductions</i>	<u>563</u>
Change in Net Assets	(407)
Net Assets Beginning of Year	<u>15,582</u>
<i>Net Assets End of Year</i>	<u><u>\$ 15,175</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Gorham Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Gorham Fayette Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 21 non-certified and 44 certified full-time teaching personnel who provide services to 510 students and other community members.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations, a related organization, and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Bond Retirement Fund are the District's major governmental funds:

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(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. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$14,241, which includes \$3,746 assigned from other funds and interest in the amount of \$97 was credited to other District funds.

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

G. Inventory

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District changed its capitalization threshold from five hundred dollars to one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music, and athletic programs, federal and state grants restricted to expenditure for specific purposes.

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

M. Fund Balance Reserves

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

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

N. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Prepaid Items

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

P. Estimates

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

Q. Pass-Through Grants

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

**3. CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

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

On the government-wide financial statements, the beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

For fiscal year 2004, the District has increased the threshold amount for capitalization of capital assets. The threshold amount was increased from \$500 to \$1,000. See note 10.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Bond Retirement Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$ 750,973	\$ 212,666	\$ 81,618	\$ 1,045,257
GASB Statement 34 Adjustment				
Change in Fund Structure	1,052		(7,268)	(6,216)
Interpretation 6 Adjustments:				
Compensated Absences Payable	10,507		4,162	14,669
Adjusted Fund Balance	<u>\$ 762,532</u>	<u>\$ 212,666</u>	<u>\$ 78,512</u>	1,053,710
GASB 34 Adjustments:				
Deferred Revenue				31,814
Capital Assets				3,471,443
Long-Term Liabilities				<u>(2,471,285)</u>
Governmental Activities Net Assets at June 30, 2003				<u>\$ 2,085,682</u>

The restatement of the business – type activity is as follows:

	<u>Business - Type Activity</u>
Retained Earnings, June 30, 2003	\$ 9,793
Modified Accrual Adjustment:	
Fixed Assets (Net)	<u>(16,009)</u>
Adjusted Fund Equity, June 30, 2003	(6,216)
GASB 34 Adjustments:	
Change in Fund Structure	<u>6,216</u>
Adjusted Net Assets at June 30, 2003	<u>\$ -</u>

4. ACCOUNTABILITY

At June 30, 2004, the Ohio Reads, Title I and Preschool Disabilities special revenue funds had deficit fund balances, in the amount of \$13, \$109, and \$2,960, respectively, resulting from

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
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adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

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

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

Net Change in Fund Balance Major Governmental Fund	General
GAAP Basis	\$ (128,221)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	260,847
Accrued FY 2004, Not Yet Received in Cash	(187,800)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(385,673)
Accrued FY 2004, Not Yet Paid in Cash	486,837
Encumbrances Outstanding at Year End (Budget Basis)	(33,917)
<i>Budget Basis</i>	<u>\$ 12,073</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
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6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$560,133 and the bank balance was \$610,497. Of the bank balance:

1. \$138,291 was covered by Federal Depository Insurance; and
2. \$472,206 was collateralized by securities specifically pledged by the financial institution in the name of the District.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio	\$ 721,493	\$ 721,493

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,281,626	\$ -
Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	(721,493)	721,493
<i>GASB Statement No. 3</i>	\$ 560,133	\$ 721,493

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
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7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 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.

The amount available as an advance at June 30, 2004, was \$62,473 in the General Fund, and \$12,489 in the Debt Service Fund. The amount available as an advance at June 30, 2003, was \$121,478 in the General Fund, and \$23,151 in the Debt Service Fund.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 30,177,930	76%	\$ 30,537,960	73%
Industrial/Commercial	3,685,230	9%	3,690,790	9%
Public Utility	1,854,320	5%	2,002,520	5%
Tangible Personal	4,202,750	10%	5,736,330	13%
Total Assessed Value	<u>\$ 39,920,230</u>	<u>100%</u>	<u>\$ 41,967,600</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$ 56.66</u>		<u>\$ 56.66</u>	

8. INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2004, the District recorded income tax revenue of \$328,090 in the General Fund, of which \$146,419 is recorded as a receivable at June 30, 2004.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

9. RECEIVABLES

Receivables at June 30, 2004, consisted of property, income tax, intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Title I	\$ 3,582
Miscellaneous Federal	6,166
<i>Total Intergovernmental Receivables</i>	<i>\$ 9,748</i>

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 84,100			\$ 84,100
Total Nondepreciable Capital Assets	84,100		-	84,100
Depreciable Capital Assets				
Land Improvements	78,356			78,356
Buildings and Building Improvements	4,422,269			4,422,269
Furniture, Fixtures, and Equipment	820,243	48,380	56,059	812,564
Vehicles	365,076	55,487	33,540	387,023
Books	333,233			333,233
Total Depreciable Capital Assets	6,019,177	103,867	89,599	6,033,445

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**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Restated Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Less Accumulated Depreciation				
Land Improvements	60,235	4,316		64,551
Buildings and Building Improvements	1,522,033	130,875		1,652,908
Furniture, Fixtures, and Equipment	538,778	28,820	50,494	517,104
Vehicles	282,750	22,338	30,186	274,902
Books	228,038	18,913		246,951
Total Accumulated Depreciation	<u>2,631,834</u>	<u>205,262</u>	<u>80,680</u>	<u>2,756,416</u>
Depreciable Capital Assets, Net Governmental Activities	<u>3,387,343</u>	<u>(101,395)</u>	<u>8,919</u>	<u>3,277,029</u>
Capital Assets, Net	<u>\$ 3,471,443</u>	<u>\$ (101,395)</u>	<u>\$ 8,919</u>	<u>\$ 3,361,129</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	24,622
Support Services:		
Instructional Staff		23,451
Administration		2,437
Fiscal		533
Operation and Maintenance of Plant		13,194
Pupil Transportation		22,480
Non-Instructional Services		1,554
Extracurricular		2,871
Capital Outlay		114,120
<i>Total Depreciation Expense</i>	<u>\$</u>	<u>205,262</u>

The District restated Capital Assets (at cost) in the beginning of the year as follows:

	<u>Amount</u>
Balance at June 30, 2003	\$ 6,326,941
Restatement – Change in Capitalization Threshold	(223,664)
Balance, Restated	<u>\$ 6,103,277</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

11. RISK MANAGEMENT

A. Comprehensive

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

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

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

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

B. Employee Insurance Benefits Program

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement. The District paid \$5,104 in premiums during the 2004 fiscal year.

12. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and

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

employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$53,504, \$43,298, and \$27,561, respectively; 58 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$34,661.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing D 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.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$302,971, \$283,003, and \$189,070, respectively; 89 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$36,333.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$23,305 for fiscal year 2004.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$12,400. For the District, the amount to fund health care benefits, including the surcharge, was \$35,869 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$182,946,777, and the target level was \$274.4 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$355.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. COMPENSATED ABSENCES

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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(Continued)**

The amount paid to a classified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 45 days.

At June 30, 2004, the current amount of unpaid compensated absences in all funds was \$77,303, and the long – term amount was \$1,059,851.

15. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government –Wide Financial Statements:

	Balance at 6/30/2003	Increase	Decrease	Balance at 6/30/2004	Amount Due In One Year
General Obligation Bonds	\$ 2,170,698	\$ 13,435	\$ 80,000	\$ 2,104,133	\$ 80,000
Pension Obligation	29,400		29,400		
Compensated Absences	271,187	273,449	271,187	273,449	
<i>Total Long-Term Obligations</i>	<u>\$ 2,471,285</u>	<u>\$ 286,884</u>	<u>\$ 380,587</u>	<u>\$ 2,377,582</u>	<u>\$ 80,000</u>

General Obligation Bonds

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

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2003	\$ 80,000	4.20%
2004	\$ 80,000	4.25%
2005	\$ 75,000	4.30%
2006	\$ 85,000	4.35%
2007	\$ 90,000	4.40%
2008	\$ 95,000	4.45%
2009	\$ 100,000	4.50%

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

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

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

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

The value of the capital appreciation bonds reported at June 30, 2004 was \$54,425.

Total expenditures for interest for the above debt for the period ended June 30, 2004 was \$99,690.

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 80,000	\$ 96,310	\$ 176,310
2006	75,000	92,997	167,997
2007	85,000	89,536	174,536
2008	90,000	85,708	175,708
2009	95,000	81,614	176,614
2010-2014	284,133	664,917	949,050
2015-2019	600,000	276,250	876,250
2020-2024	795,000	103,875	898,875
Total	<u>\$ 2,104,133</u>	<u>\$ 1,491,207</u>	<u>\$ 3,595,340</u>

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2003	\$ (43,477)	\$ -	\$ 20,872
Current Year Set-aside Requirement	65,919	65,919	
Current Year Offsets	-	62,745	
Qualifying Disbursements	<u>(72,027)</u>	<u>(128,664)</u>	<u>(20,872)</u>
Balance Carried Forward to FY 2005	<u>\$ (49,585)</u>	<u>\$ -</u>	<u>\$ -</u>

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

17. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$32,343. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,000. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

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

18. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$456,923. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$444 to the WCGRP to cover the costs of administering the program.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

19. RELATED ORGANIZATION

Normal Memorial Library

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

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

20. SCHOOL FUNDING DECISION

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

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

21. INTERFUND TRANSFERS

During the year ended June 30, 2004, the General Fund transferred \$9,000 to Other Non-major Governmental Funds. A Non-major Governmental transferred \$118 to another Non-major Governmental Fund. These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

22. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

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

23. SUBSEQUENT EVENTS

The District has received conditional approval from the Ohio School Facilities Commission to construct a new PreK-12 building. This approval is through the Extreme Environmental Contamination Program because the Gorham Fayette High School building has contamination underneath it. The project is contingent upon the District obtaining its local share of \$3,348,000. The total estimated cost of the project is \$14,557,928.

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2004, in which we noted the District adopted *Governmental Accounting Standard Board Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and modified the capitalization threshold for its capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated December 22, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

December 22, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2005**