



Dave Yost • Auditor of State

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types For the Fiscal Year Ended June 30, 2012	3
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds For the Fiscal Year Ended June 30, 2012	4
Notes to the Basic Financial Statements	5
Schedule of Federal Awards Receipts and Expenditures.....	23
Notes to the Schedule of Federal Awards Receipts and Expenditures	24
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	25
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	27
Schedule of Findings.....	29
Schedule of Prior Audit Findings.....	33

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of Graham Local School District, Champaign County, (the District) as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, because of the departure from generally accepted accounting principles described in the preceding paragraph, the accompanying financial statements do not present fairly the financial position, results of operations of the Graham Local School District as of and for the year ended June 30, 2012 in accordance with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. For reasons stated in the third paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2012, or its changes in financial position for the year then ended. Therefore we are unable to express, and we do not express, an opinion on Schedule of Federal Awards Receipts and Expenditures.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 29, 2012

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Cash Receipts:					
Property tax and Other Local Taxes	\$4,049,222	\$80,162	\$1,089,651	\$219,419	\$5,438,454
Intergovernmental	11,234,868	1,251,757	251,765	81,907	12,820,297
Tuition and Fees	820,382				820,382
Interest	8,353	1,767		4,340	14,460
Rent	8,712				8,712
Extracurricular Activities		298,060			298,060
Donations and Gifts	18	16,050			16,068
Customer Sales and Services		435,020			435,020
Miscellaneous	252,505	2,930		79,385	334,820
Total Cash Receipts	<u>16,374,060</u>	<u>2,085,746</u>	<u>1,341,416</u>	<u>385,051</u>	<u>20,186,273</u>
Cash Disbursements:					
Instruction:					
Regular	6,037,304	168,056			6,205,360
Special	1,483,559	493,352			1,976,911
Vocational Education	(276)				(276)
Adult/Continuing	1,000				1,000
Other Instruction	1,924,002				1,924,002
Supporting Services:					
Pupils	526,742	298,119			824,861
Instructional Staff	931,305	63,544			994,849
Board of Education	40,292				40,292
Administration	1,274,365	22,984			1,297,349
Fiscal Services	343,366	2,177	30,293	5,352	381,188
Business	37,170				37,170
Operation and Maintenance of Plant	1,479,066	188,658		14,402	1,682,126
Pupil Transportation	1,292,188			191,071	1,483,259
Central	107,625				107,625
Operation of Non-Instructional Services:					
Food Service Operations		768,550			768,550
Extracurricular Activities:					
Academic Oriented Activities	21,365				21,365
Sports Oriented Activities	262,519	7,397			269,916
School and Public Service Co-Curricular Activities	6,143	154,505			160,648
Capital Outlay:					
Architecture and Engineering Services				34,390	34,390
Building Acquisition and Construction Services				480,479	480,479
Building Improvement Services				16,383	16,383
Debt Service:					
Principal Retirement	24,282		290,812	117,635	432,729
Interest and Fiscal Charges	10,573		1,046,907	7,750	1,065,230
Total Cash Disbursements	<u>15,802,590</u>	<u>2,167,342</u>	<u>1,368,012</u>	<u>867,462</u>	<u>20,205,406</u>
Total Cash Receipts Over/(Under) Cash Disbursements	571,470	(81,596)	(26,596)	(482,411)	(19,133)
Other Financing Receipts/Disbursements:					
Transfers-In	89,081	58,145			147,226
Transfers-Out	(84,000)	(1,615)		(55,000)	(140,615)
Insurance Recoveries		4,406			4,406
Refund of Prior Year Expenditures	4,748				4,748
Total Other Financing Receipts/(Disbursements)	<u>9,829</u>	<u>60,936</u>		<u>(55,000)</u>	<u>15,765</u>
Excess of Cash Receipts and other Financing Receipts Over/ (Under) Cash Disbursements and Other Financing Disbursements	581,299	(20,660)	(26,596)	(537,411)	(3,368)
Fund Cash Balances, July 1	560,287	1,251,765	1,003,915	2,334,284	5,150,251
Fund Cash Balances, June 30	<u>\$1,141,586</u>	<u>\$1,231,105</u>	<u>\$977,319</u>	<u>\$1,796,873</u>	<u>\$5,146,883</u>

The notes to the basic financial statements are an integral part of this statement.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Scholarship Private Purpose Trust Funds	Agency Funds	Totals (Memorandum Only)
Additions:			
Gifts and Contributions		\$260	\$260
Interest	\$687		687
Miscellaneous		477,310	477,310
Total Additions	<u>687</u>	<u>477,570</u>	<u>478,257</u>
Deductions:			
Payment in Accordance with Trust Agreements	5,000		5,000
Other Operating Expenses		483,982	483,982
Total Deductions	<u>5,000</u>	<u>483,982</u>	<u>488,982</u>
Change in Net Assets	(4,313)	(6,412)	(10,725)
Fund Cash Balances, July 1	120,328	41,717	162,045
Fund Cash Balances, June 30	<u>\$116,015</u>	<u>\$35,305</u>	<u>\$151,320</u>

The notes to the basic financial statements are an integral part of this statement.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The School District was established in 1955 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 189 square miles. It is located in Champaign and Shelby Counties, and includes all of the Villages of Christiansburg, Rosewood, and St. Paris, and portions of Adams, Concord, Harrison, Jackson, Johnson, and Mad River Townships. The School District is staffed by 96 classified employees, 115 certified teaching personnel, and 11 administrative employees who provide services to 2,133 students and other community members. The School District currently operates 3 instructional buildings and an administration building.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

A. The Reporting Entity

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

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

The component units, Graham Digital Academy and A.B. Graham Academy, are reported separately to emphasize that they are legally separate from the School District.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Graham Digital Academy: Graham Digital Academy (Academy) is a legally separate not-for-profit organization served by an appointed seven-member Board of Directors (Board). The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2007. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Board consists of five voting members who are not employed by the School District and two nonvoting members who hold administrative positions with the School District. The Board is responsible for carrying out provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

A.B. Graham Academy: A.B. Graham Academy (Academy) is a legally separate not-for-profit organization served by an appointed seven-member Board of Directors (Board). The Academy was approved for operation under contract with the School District until superseded by a mutually agreed upon service agreement commencing October 26, 2009. The School District is responsible for evaluating the performance of the Academy and has the right to terminate this agreement with a 90-day notice to the Academy. The Board consists of five voting members who are not employed by the School District and two non-voting members who hold administrative positions with the School District. The Board is responsible for carrying out provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

The Academies each issue a publicly available, stand-alone financial report that includes financial statements and supplementary information. These reports may be obtained by writing to the Administrative Offices, 370 East Main Street, St. Paris, Ohio 43072 or by calling (937) 663-4123.

The School District is associated with four jointly governed organizations, an insurance purchasing pool and a related organization. These organizations are presented in Notes 13, 14 and 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Ohio Hi-Point Joint Vocational School
- Western Ohio Computer Organization
- Southwestern Ohio Education Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council (EPC) Workers' Compensation Group Rating Plan

Related Organization:

- St. Paris Public Library

B. Fund Accounting

The District uses fund accounting to segregate cash and investments which are restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

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

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

Debt Service Fund – This fund is used for the accumulation of resources for, and the payment of, general obligation long-term debt principal and interest.

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

2. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include agency and trust funds.

C. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, both of which are prepared on the budgetary basis of accounting. 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 cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds with the exception of the General Fund which is at the fund, object code. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Interest in the pool is included in the cash balances reported by fund type.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

H. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. Long-Term Obligations

The District's cash basis does not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure is reported at inception.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in fiduciary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

K. Total Columns on Financial Statements

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

3. COMPLIANCE

Ohio Administrative Code, §117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a regulatory basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2012, \$4,565,919 of the District's bank balance of \$5,451,186 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2012, the district had no investments other than CD's.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. BUDGETARY ACTIVITY

Budgetary activity for the year ending June 30, 2012:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$16,350,000	\$16,467,889	\$117,889
Special Revenue	2,227,400	2,148,297	(79,103)
Debt Service	1,290,000	1,341,415	51,415
Capital Projects	313,600	385,051	71,451
Private-Purpose Trust	4,000	688	(3,312)
Agency	545,000	477,569	(67,431)
Total	\$20,730,000	\$20,820,909	\$ 90,909

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$16,184,489	\$15,886,590	\$ 297,899
Special Revenue	2,591,591	2,168,961	422,630
Debt Service	2,210,000	1,368,011	841,989
Capital Projects	2,200,275	922,462	1,277,813
Private-Purpose Trust	12,000	5,000	7,000
Agency	575,926	483,982	91,944
Total	\$23,774,281	\$20,835,006	\$2,939,275

Contrary Ohio Law, appropriations exceeded actual resources For Title I Fund 572 by \$51,453.

6. 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 property and public utility property located in the District. Real property tax receipts received in calendar years 2012 and 2011 represent the collection of calendar years 2011 and 2010 taxes. Real property taxes received in calendar years 2012 and 2011 were levied after April 1, 2011 and 2010, on the assessed values as of January 1, 2011 and 2010, respectively, 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 property tax receipts received in calendar years 2012 and 2011 represent the collection of calendar years 2011 and 2010 taxes, respectively. Public utility real and tangible personal property taxes received in calendar years 2012 and 2011 became a lien on December 31, 2010 and 2009, respectively, were levied after April 1, 2011 and 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. PROPERTY TAXES (Continued)

The District receives property taxes from Champaign and Shelby Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2012 and 2011 are available to finance fiscal years 2012 and 2011 operations, respectively. The amount available to be advanced can vary based on the date the tax bills are sent. The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property:				
Agricultural/Residential	\$210,042,470	88.77%	\$209,697,570	88.39%
Industrial/Commercial	20,583,450	8.70%	21,419,780	9.03%
Public Utility Real Land	82,350	0.03%	75,620	0.03%
Public Utility Property	5,907,400	2.50%	6,041,340	2.55%
Total Assessed Value	<u>\$236,615,670</u>	100.00%	<u>\$237,234,310</u>	100.00%
Tax rate per \$1,000 of assessed valuation	\$34.35		\$34.68	

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage.

Property, including building, contents, extra expense, business interruption, mobile equipment, valuable papers, fine art, accounts receivable, EDP, inland marine, and auto physical damage	\$ 350,000,000
Crime and employee dishonesty (each and every loss)	500,000
Liability:	
General and employee benefits liability:	
Per occurrence	\$ 1,000,000
Aggregate annual total	3,000,000
Automobile, school board legal and employer and sexual abuse/molestation liability	1,000,000
Auto medical payments (per person)	5,000
Excess Liability (umbrella)	\$5,000,000
	per occurrence and aggregate limit
Pollution Legal Liability	\$1,000,000
	per occurrence

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

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2012, the School District participated in the Southwestern Ohio Educational Purchasing Council (EPC) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employer/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$287,889, \$271,061 and \$372,156, respectively; 79.30 percent has been contributed for fiscal year 2012 and 100 percent for 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, plan members were 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$955,158, \$1,161,390, and \$1,159,848; 83.24 percent has been contributed for fiscal year 2012 and 100 percent for 2011 and 2010.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, four members of the Board of Education (Mitchell, Turner, Evilsizor, Miller) have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS).

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The School Employees Retirement System (SERS) administers two postemployment benefit plans, Medicare Part B and Health Care Plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employer/Auditor Resources*.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contributions of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The amount of the School District's contributions to SERS allocated to the Health Care Plan for the years ended June 30, 2012, 2011, and 2010 were \$12,468, \$32,868, and \$12,228, respectively; 79.30% has been contributed for fiscal year 2012 and 100% has been contributed for 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$17,001, \$17,468, and \$20,203, respectively; 79.30% has been contributed for fiscal year 2012 and 100% has been contributed for 2011 and 2010.

B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the years ended June 30, 2012, 2011 and 2010 were \$73,474, \$82,956, and \$82,847, respectively; 83.24% has been contributed for fiscal year 2012 and 100% has been contributed for 2011 and 2010.

10. DEBT

The changes in the District's long-term obligations during fiscal year 2011 were as follows:

	Amount Outstanding 6/30/2011	Decrease	Amount Outstanding 6/30/2012	Amount Due Within One Year
General Obligation Bonds				
Capital Appreciation Bonds	\$ 235,000	\$120,812	\$ 114,188	\$114,188
Serial and Term Bonds - 2005	16,630,000	170,000	16,460,000	200,000
Capital Appreciation Bonds	315,000		315,000	
Capital Lease Debt	496,000	141,000	355,000	148,000
Total	<u>\$17,676,000</u>	<u>\$431,812</u>	<u>\$17,244,188</u>	<u>\$462,188</u>

On May 1, 1998, the School District issued \$7,735,000 in voted general obligation bonds for construction, improvement, and renovation of school facilities. The bond issue included serial, term, and capital appreciation bonds in the amount of \$3,840,000, \$3,660,000, and \$235,000, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2021. The bonds are being retired from the Bond Retirement debt service fund. The capital appreciation bonds will mature in fiscal years 2012 and 2013. The maturity amount of the capital appreciation bonds is \$800,000.

During fiscal year 2006, the School District issued \$17,235,000 of general obligation bonds to refinance \$13,575,000 in bond anticipation notes and to advance refund \$3,660,000 of the 1998 school facilities issue. These bonds include serial and term bonds and capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2015 and 2016. The maturity amount of the capital appreciation bonds is \$775,000.

Debt Schedule for General Obligation Bonds:

Fiscal Year	Principal	Interest	Total
2013	\$ 314,188	\$ 1,046,806	\$ 1,360,994
2014	625,000	745,525	1,370,525
2015	565,000	919,813	1,484,813
2016	535,000	980,806	1,515,806
2017	840,000	666,706	1,646,706
2018-22	4,720,000	2,869,644	7,589,644
2023-27	3,235,000	1,988,988	5,223,988
2028-32	4,110,000	1,122,750	5,232,750
2033-34	1,945,000	147,000	2,092,000
	<u>\$16,889,188</u>	<u>\$10,488,038</u>	<u>\$27,377,226</u>

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. DEBT (Continued)

Debt Schedule for Capital Appreciation Bonds:

<u>Fiscal Year</u>	<u>Principal</u>
2013	\$114,188
2015	115,000
2016	200,000
Total	<u>\$429,188</u>

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

The total district assessed valuation of the FY12 fiscal year was \$ 237,234,310 as shown at the end of Note 6. The voted debt margin was \$ 6,074,026 and an un-voted debt margin was \$ 243,019.

Capital Lease Schedule:

<u>Fiscal Year</u>	<u>Principal</u>
2013	\$148,000
2014	26,000
2015	27,000
2016	28,000
2017	30,000
2018-2020	96,000
Total	<u>\$355,000</u>

11. SET ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2012.

	<u>Capital Improvements</u>
Balance June 30, 2011	(\$12,418,277)
Current Year Set Aside Requirement	366,359
Current Year Offsets	
Qualifying Cash Disbursements	(221,304)
Set Aside Reserve Balance June 30, 2012	<u>(\$12,273,222)</u>

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

12. 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, 2012.

B. Litigation

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

13. JOINTLY GOVERNED ORGANIZATIONS

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

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

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

13. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

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

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

14. INSURANCE POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating-Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a nine member committee consisting of the Chairman, Co-Chairman, and seven member school representatives. The Executive Director of the SOEPC and his designee, serves as chairman and co-chairman of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of CorVel provides administrative, cost control and actuarial services to the Program.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

15. RELATED ORGANIZATION

St. Paris Public Library – The St. Paris Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Graham Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority and the School District issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the St. Paris Public Library, Diane Kremer, Clerk/Treasurer, P.O. Box 740, St. Paris, Ohio 43072.

16. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

Interfund transactions at June 30, 2012, consisted of transfers in and transfers out:

	Transfers In	Transfers Out
Permanent Improvement Fund		\$55,000
OSFC Maintenance Fund	\$55,000	
Principal's Activity Fund	1,530	
Student Activity Fund		1,530
	\$56,530	\$56,530

During fiscal year 2012, the School District transferred \$55,000 from the Permanent Improvement fund to the Classroom Facilities Maintenance Fund to meet the requirements of the Ohio School Facilities Commission (OSFC) for the 0.5 mill tax levy for facilities maintenance per Board Resolution 11-103. The OSFC and the Auditor of State approved an alternative funding arrangement for the potential "shortfall" when the current 0.5 mill tax levy expires in 2019 (last collected in FY2020). The School District must make annual deposits through 2020 in the event that the 0.5 tax levy for building maintenance is not renewed by voters in 2019 since the useful life of the new building extends through 2031, or 23 years from the project agreement date of 2008.

Other transfers included transfers between the Principal's Activity Fund and the Student Activity Fund to close student activity funds that were no longer active due to a graduating class.

17. SUBSEQUENT EVENTS

On July 30, 2012, the school board authorized the issuance of General Obligation Conservation Bonds in a principal amount not to exceed \$595,000. Also, on this date, the school board authorized the issuance of School Improvement General Obligation Refunding Bonds in a principal amount of \$12,455,000. The closing is expected to occur on October 9, 2012.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

18. STUDENT ATTENDANCE

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

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**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
(Passed through Ohio Department of Education)					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$68,550		\$68,550	
National School Lunch Program	10.555	317,882	\$40,012	317,882	\$35,305
Total Child Nutrition Cluster		<u>386,432</u>	<u>40,012</u>	<u>386,432</u>	<u>35,305</u>
Total U.S. Department of Agriculture		386,432	40,012	386,432	35,305
U.S. DEPARTMENT OF EDUCATION					
(Passed through Ohio Department of Education)					
Title 1, Part A Cluster					
Title I, Grants to Local Educational Agencies	84.010	269,084		281,059	
ARRA Title I, Grants to Local Educational Agencies - Recovery Act	84.389	3,602		3,602	
Total Title 1, Part A Cluster		<u>272,686</u>		<u>284,661</u>	
Special Education Cluster					
Special Education Grants to States	84.027	419,898		419,898	
Special Education Preschool Grants	84.173	14,799		14,799	
Total Special Education Cluster		<u>434,697</u>		<u>434,697</u>	
Education Technology State Grants	84.318	1,550		1,550	
Improving Teacher Quality State Grants	84.367	61,779		61,779	
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394			107,153	
Education Jobs Fund	84.410	14,976		20,386	
Total U.S. Department of Education		<u>785,688</u>		<u>910,226</u>	
Total Federal Assistance		<u>\$1,172,120</u>	<u>\$40,012</u>	<u>\$1,296,658</u>	<u>\$35,305</u>

See accompanying notes to the schedule of federal awards receipts and expenditures.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Graham Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Title I Grants to Local Educational Agencies	84.010	\$ 197
Improving Teacher Quality	84.367	1,418



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the Graham Local School District (the School District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 29, 2012, wherein we issued an adverse opinion and noted the School District prepared its financial statements on an accounting basis not in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-03 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-01 and 2012-02.

We also noted a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated October 29, 2012.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the finance committee, Board of Education, and federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

October 29, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Graham Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Graham Local School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

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

In our opinion, the Graham Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

**Internal Control Over Compliance
(Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Dave Yost
Auditor of State

October 29, 2012

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Adverse
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	<p><i>Child Nutrition Cluster</i> School Breakfast Program - CFDA 10.553 National School Lunch Program - CFDA 10.555</p> <p><i>Special Education Cluster</i> Special Education Grants to States – CFDA 84.027 Special Education Preschool Grants – CFDA 84.173</p>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2012-01

Material Noncompliance - GAAP Reporting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2012, the School District prepared financial statements in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare the annual financial statements according to generally accepted accounting principles to help provide users with more meaningful and complete financial statements.

Official's Response:

The Board of Education and management of the District are knowledgeable concerning the required reporting format (GASB 34 / Generally Accepted Accounting Principles) and the similarities and differences from the required reporting format and the method currently incorporated by the District (Cash Basis of Accounting). District personnel considered the cost-benefit of the two reporting formats and determined reporting on the Cash Basis of Accounting format to be the more fiscally responsible format at this time.

FINDING NUMBER 2012-02

Finding For Recovery - Repaid Under Audit - Shortage in Athletic Event Deposit

Pursuant to Ohio Rev. Code Section 9.38, the definition of "public official" found in Ohio Rev. Code 117.01 is applicable to Ohio Rev. Code 9.39. "Public official" is defined in Ohio Rev. Code 117.01(E) as "any officer, employee, or duly authorized representative or agent of a public office. " In turn, "public office" is defined as "any state agency, public institution, political subdivision, or other organized body, office, agency, institution, or entity established by the laws of this state for the exercise of any function of government." Ohio Rev. Code 117.01(D). Ohio Rev. Code Section 9.39 states that all public officials are held liable for all public money received or collected by them or by their subordinates under color of office. Further, Ohio Atty Gen. Op. No. 93-004 provides that the language of Ohio Rev. Code Section 9.39 with respect to the liability of public officials is plain and unambiguous stating that a public official will be held personally liable if public moneys that come into his possession or custody in his official capacity are lost.

**FINDING NUMBER 2012-02
(Continued)**

On October 28, 2011 and October 14, 2011, deposit slips were prepared in the amount \$6,336 and \$4,302 respectively for monies earned at the events. The bank reviewed the deposits and changed the amounts of the deposit slips to \$6,092 and \$4,211 respectively, for a difference of \$244 and \$91 or \$335 total. The ticket sellers reports show the details, accounting for change errors of only \$8, leaving \$327 unaccounted for. Brook Cupps was employed as the Athletic Director for the Graham Local School District. His duties included supervising the collection of money, writing receipts and depositing the money into the bank. Therefore, in accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but not accounted for is hereby issued against Brook Cupps in the amount of \$327 and in favor of Graham Local School District's Athletic Fund. This finding was repaid on September 27, 2012 as evidenced by District receipt number 62562.

The District should better manage the collection of monies at athletic events. The athletic director or other supervisory personnel should use due diligence in the counting of monies, and preparation of deposit slips in order to ensure accuracy. Furthermore, the District should thoroughly investigate any differences immediately upon discovery.

Official's Response:

In response to your letter to Brook Cupps of the Graham Local School District dated August 24, 2012, I would like to address the issue of the finding for recovery stated in the letter. First, when the bank changed the deposit slips of October 28, 2011 and October 14, 2011, the bank did not notify the district of these changes. The changes were caught when my office reconciled our books at the end of the month. At that point there was no opportunity for us to confirm what the bank had found. We have spoken with the bank about this and their lack of communication and they have assured us that this will not happen again.

When the changes to the deposits were found at the end of the month reconciliation, my office staff believes they did contact the athletic office of these changes but we do not have any documentation of this communication. I have taken steps to assure that this communication will take place if any changes are made in the future.

At the end of the month when the reconciliation process was completed, all supervisors receive account reports. The report to the athletic director would have shown the change in these 2 deposits. Mr. Cupps did not catch these changes to the deposits on his report. I have reviewed with all supervisors the importance of the monthly reports for checking any discrepancies from their records of transactions for the previous month.

Finally, we have made changes with the process for deposits of gate receipts. When deposits are made over a weekend, we communicate to the bank on the deposit for the bank not to deposit the funds but just to hold the funds until we can be there on the next business day. This change allows for the funds to be held securely over the weekend but also allows for us to be presence when the funds are deposited so we are assured of correct deposits.

FINDING NUMBER 2012-03

Material Weakness

Accuracy of Financial Statement Presentation

The beginning balances for the fiscal year 2012 financial statements were presented incorrectly for the Capital Projects Fund and Agency Fund. Adjustments from the prior audit were not carried forward into WebGAAP, the software accounting system used to compile the fiscal year 2012 financial statements.

**FINDING NUMBER 2012-03
(Continued)**

The Agency Fund beginning balance was understated by \$5,081 as the amount was reported in the General fund. The adjustment between the Agency fund and the General fund was incorrectly shown by the District as a current year transfer rather than an adjustment to beginning balance. This adjustment was not made to the financial statements prepared by the District. The beginning balance in the Capital Projects Fund was understated by \$273,045 for seven escrow accounts which were not originally presented on the prior year statements and were not corrected in the current year compilation prepared the District. The accompanying financial statements reflect an adjusted beginning balance and related expenditure in the Building Acquisition and Construction Services line item for the closing the escrow accounts in the fiscal year 2012.

Transfers as reflected on the financial statements are overstated due to transfers between cost centers of the General fund, the Title I grant fund, and the Improving Teacher Quality grant fund. These amounts were \$80,000, \$197, and \$1,418, respectively. Other immaterial errors were also noted in the financial statements as presented by the District.

Additionally, the notes to the financial statements did not correctly reflect debt activity per related amortizations schedules and the transfer note did not agree to the amounts reflected in the financial statements. These notes have been modified to properly reflect the debt activity.

Audit adjustments from the prior audit need to be properly reflected in the current fiscal year financial statements. The incorrect beginning balances would provide for improper ending balances. Beginning balances need to agree to the prior report's ending balances. Also, current year activity should be properly reflected in the financial statements and should agree to note disclosure presented to help describe the activity of the District. The Board and users of the financial statements could make incorrect decisions or assumptions based on financial statements with incorrect beginning balances or activity.

Procedures should be implemented to assure that the prior audited financial statements' ending balances are used as the current fiscal year's beginning balances and current year activity is reviewed for proper presentation.

Official's Response:

The beginning balances will not affect next fiscal year so they will not be an issue in the future.

Since the transfers are within the same fund with different special cost centers for tracking purposes only, we will make changes to our accounting processes so this issue does not occur in the next fiscal year.

We will be reviewing the ending balances when the official audit report comes out to make any adjustments needed for next year.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

**GRAHAM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	O.R.C. Section 117.38 GAAP Reporting	No	Not Corrected. Repeated as Finding Number 2012-01
2011-002	Report Presentation of Activity		Not Corrected. Repeated as Finding Number 2012-03
2011-003	O.R.C. Section 5750.36(A)(4) – appropriations in excess of available resources	Yes	
2011-004	34 CFR 80.20(b)(7) – cash management of federal monies	Yes	

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Dave Yost • Auditor of State

GRAHAM LOCAL SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 4, 2012