



**Auditor of State
Betty Montgomery**

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

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 Galion City School District, Crawford County, Ohio, (the District), as of and for the year ended June 30, 2005, 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 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 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 Galion City School District, Crawford County, Ohio, as of June 30, 2005, and the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2005, 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.

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

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by 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 basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

December 14, 2005

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Galion City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$967,012 which represents a 19.91% increase from 2004.
- General revenues accounted for \$17,713,279 in revenue or 86.09% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,861,546 or 13.91% of total revenues of \$20,574,825.
- The District had \$19,607,813 in expenses related to governmental activities; only \$2,861,546 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,713,279 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and building improvement fund. The general fund had \$16,263,566 in revenues and \$16,047,330 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance increased \$218,944 from \$1,378,122 to \$1,597,066.
- The debt service fund had \$1,449,306 in revenues and \$1,380,094 in expenditures. During fiscal 2005, the debt service fund's fund balance increased \$69,212 from \$796,667 to \$865,879.
- The building improvement fund had \$320,203 in revenues and \$165,630 in expenditures. During fiscal 2005, the building improvement fund's fund balance increased \$154,573 from \$15,773,834 to \$15,928,407.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and building improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and building improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 26,667,901	\$ 25,776,799
Capital assets	<u>2,954,883</u>	<u>3,161,409</u>
Total assets	<u>29,622,784</u>	<u>28,938,208</u>
<u>Liabilities</u>		
Current liabilities	6,802,699	6,469,571
Long-term liabilities	<u>16,997,369</u>	<u>17,612,933</u>
Total liabilities	<u>23,800,068</u>	<u>24,082,504</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,475,301	2,741,528
Restricted	2,553,792	1,363,835
Unrestricted	<u>793,623</u>	<u>750,341</u>
Total net assets	<u>\$ 5,822,716</u>	<u>\$ 4,855,704</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$5,822,716.

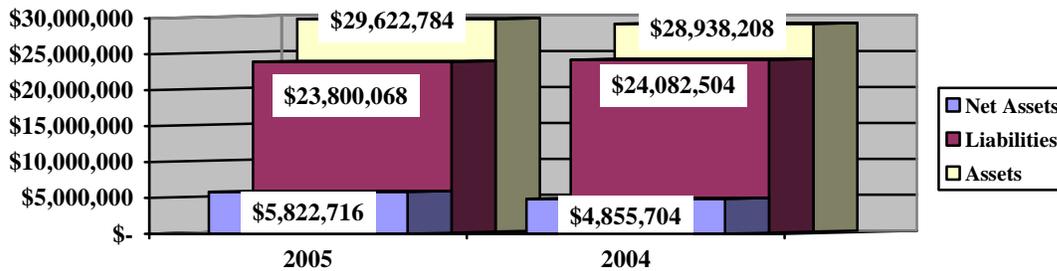
**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At year-end, capital assets represented 9.98% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,475,301. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,553,792, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$793,623.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004:

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 874,484	\$ 1,001,897
Operating grants and contributions	1,879,030	1,811,699
Capital grants and contributions	108,032	233,236
General revenues:		
Property taxes	7,800,236	7,595,027
Grants and entitlements	9,475,293	9,282,224
Investment earnings	385,285	49,650
Other	52,465	68,143
Total revenues	\$ 20,574,825	\$ 20,041,876

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Change in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,151,901	\$ 8,136,380
Special	2,625,826	2,415,638
Vocational	64,313	254,298
Other	609,684	595,463
Support services:		
Pupil	737,655	633,529
Instructional staff	948,004	979,123
Board of education	60,357	83,478
Administration	1,528,996	1,704,884
Fiscal	401,064	420,709
Operations and maintenance	1,486,376	1,458,378
Pupil transportation	653,720	644,453
Central	193,625	298,335
Food service operations	686,485	676,197
Operations of non-instructional services	51,282	11,602
Extracurricular activities	633,931	686,050
Intergovernmental pass through	105,047	56,640
Interest and fiscal charges	<u>669,547</u>	<u>334,352</u>
Total expenses	<u>19,607,813</u>	<u>19,389,509</u>
Change in net assets	967,012	652,367
Net assets at beginning of year	<u>4,855,704</u>	<u>4,203,337</u>
Net assets at end of year	<u>\$ 5,822,716</u>	<u>\$ 4,855,704</u>

Governmental Activities

Net assets of the District's governmental activities increased \$967,012. Total governmental expenses of \$19,607,813 were offset by program revenues of \$2,861,546 and general revenues of \$17,713,279. Program revenues supported 14.59% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 93.62% of total governmental revenue.

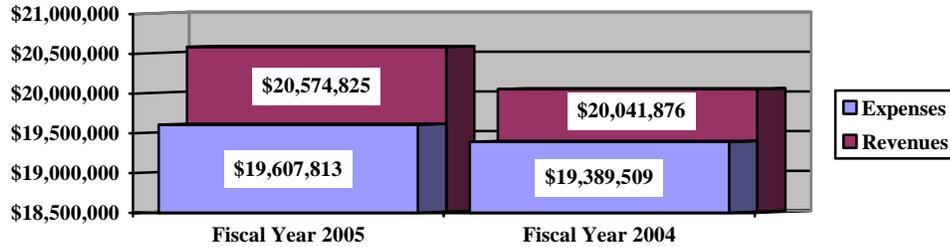
The largest expense of the District is for instructional programs. Instruction expenses totaled \$11,451,724 or 58.40% of total governmental expenses for fiscal 2005.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

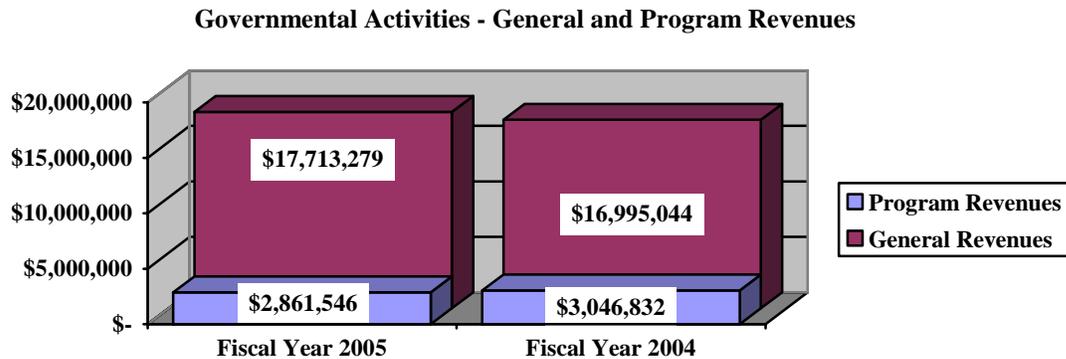
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 8,151,901	\$ 7,472,249	\$ 8,136,380	\$ 7,226,678
Special	2,625,826	1,791,739	2,415,638	1,654,966
Vocational	64,313	64,313	254,298	254,298
Other	609,684	609,684	595,463	595,463
Support services:				
Pupil	737,655	719,727	633,529	620,363
Instructional staff	948,004	664,153	979,123	739,584
Board of education	60,357	60,357	83,478	83,478
Administration	1,528,996	1,505,392	1,704,884	1,642,417
Fiscal	401,064	399,984	420,709	420,709
Operations and maintenance	1,486,376	1,436,863	1,458,378	1,393,625
Pupil transportation	653,720	600,784	644,453	644,347
Central	193,625	186,845	298,335	211,183
Food service operations	686,485	47,287	676,197	44,916
Operations of non-instructional services	51,282	18,238	11,602	(24,522)
Extracurricular activities	633,931	478,315	686,050	527,265
Intergovernmental pass-through	105,047	20,790	56,640	(26,445)
Interest and fiscal charges	669,547	669,547	334,352	334,352
Total expenses	<u>\$ 19,607,813</u>	<u>\$ 16,746,267</u>	<u>\$ 19,389,509</u>	<u>\$ 16,342,677</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 86.78% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.41%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$18,807,272, which is higher than last year's total of \$18,485,951. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 1,597,066	\$ 1,378,122	\$ 218,944
Debt Service	865,879	796,667	69,212
Building Improvement	15,928,407	15,773,834	154,573
Other Governmental	<u>415,920</u>	<u>537,328</u>	<u>(121,408)</u>
Total	<u>\$ 18,807,272</u>	<u>\$ 18,485,951</u>	<u>\$ 321,321</u>

General Fund

The District's general fund balance increased \$218,944. The fund balance remained relatively unchanged due to the District's ability to control expenditures and operate with available revenues.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 6,420,518	\$ 6,510,640	\$ (90,122)	(1.38) %
Tuition	343,812	439,638	(95,826)	(21.80) %
Earnings on investments	63,810	40,066	23,744	59.26 %
Intergovernmental	9,324,255	9,097,477	226,778	2.49 %
Other revenues	<u>111,171</u>	<u>115,294</u>	<u>(4,123)</u>	(3.58) %
 Total	 <u>\$ 16,263,566</u>	 <u>\$ 16,203,115</u>	 <u>\$ 60,451</u>	 0.37 %
<u>Expenditures</u>				
Instruction	\$ 10,053,861	\$ 10,145,058	\$ (91,197)	(0.90) %
Support services	5,452,032	5,624,216	(172,184)	(3.06) %
Non-instructional services	2,935	3,167	(232)	(7.33) %
Extracurricular activities	459,563	491,633	(32,070)	(6.52) %
Facilities acquisition and construction	<u>-</u>	<u>14,954</u>	<u>(14,954)</u>	(100.00) %
 Total	 <u>\$ 15,968,391</u>	 <u>\$ 16,279,028</u>	 <u>\$ (310,637)</u>	 (1.91) %

Debt Service Fund

The debt service fund had \$1,449,306 in revenues and \$1,380,094 in expenditures. During fiscal 2005, the debt service fund's fund balance increased \$69,212.

Building Improvement Fund

The building improvement fund had \$320,203 in revenues and \$165,630 in expenditures. During fiscal 2005, the building improvement fund's fund balance increased \$154,573.

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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$16,463,825 were lowered to \$16,193,825 in the final budget. Actual revenues and other financing sources for fiscal 2005 was \$16,277,099. This represents a \$83,274 increase over final budgeted revenues and other financing sources.

General fund original and final appropriations (appropriated expenditures including other financing uses) totaled \$17,196,263. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$16,653,361 which was \$542,902 less than the final budget appropriations.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$2,954,883 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 895,355	\$ 895,355
Land improvements	257,952	202,704
Building and improvements	1,357,817	1,486,139
Furniture and equipment	230,653	304,805
Vehicles	213,106	272,406
Total	<u>\$ 2,954,883</u>	<u>\$ 3,161,409</u>

The overall decrease in capital assets of \$206,526 is due to depreciation expense of \$314,535 and disposals of \$7,919 (net of accumulated depreciation) exceeding capital outlays of \$115,928 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$15,481,162 in general obligation bonds outstanding. Of this total, \$443,803 is due within one year and \$15,037,359 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds:		
Elevator construction	\$ 7,420	\$ 21,685
Boiler replacement bonds	27,407	33,501
School improvement bonds	15,446,335	16,103,089
Total	<u>\$ 15,481,162</u>	<u>\$ 16,158,275</u>

At June 30, 2004, the District's overall legal debt margin was \$3,016,907, and an unvoted debt margin of \$195,609.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The Galion City School District is embarking on very exciting times. In August of 2003, a 6.84 mill bond issue was passed to construct a new High School through the Ohio School Facilities Commission (OSFC) Expedited Local Partnership Plan (ELPP) program. The OSFC's state share percentage is 76%, with the District contributing 24% of the funding for the total project. It is anticipated that the District will receive funding from the OSFC for the remaining phases of construction, moving the District into a CFAP status. This project is the first phase of a total district-wide building replacement plan that includes construction of a High School, a Middle School and two Elementary Schools, replacing the existing High School, Middle School and four Elementary Schools. This building project is anticipated to boost the local economy in a positive manner, along with the U.S. Route 30 four-lane expansion project through Crawford County, adjacent to the District boundaries.

Declining enrollments over the past ten years have been a concern and are being monitored closely. It is anticipated that the District will need to modify its educational delivery system to maximize personnel in the most efficient manner. Any additional revenues should not be treated as a windfall to expand programs but as an opportunity to extend the life of current programs.

The District is also facing future challenges in the area of state funding. The State of Ohio was found by the Ohio Supreme Court in March of 1997 to be operating an unconstitutional educational system, one that was neither adequate nor equitable. Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

Many new experiences and challenges are on the District's horizon. It is very important that the Board and Administration continue to carefully and prudently plan in order to provide the resources necessary to meet the needs of the students of Galion into the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Carl Claphan, Treasurer, Galion City School District, 200 W. Church Street, Galion, Ohio 44833-1796.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,409,971
Investments	15,937,917
Receivables:	
Taxes	7,619,182
Accounts	466
Intergovernmental	338,098
Accrued interest	36,182
Prepayments	30,201
Materials and supplies inventory	29,748
Unamortized bond issue costs	266,136
Capital assets:	
Land	895,355
Depreciable capital assets, net	2,059,528
Capital assets, net.	2,954,883
 Total assets.	 29,622,784
 Liabilities:	
Accounts payable.	46,119
Accrued wages and benefits	1,735,389
Pension obligation payable.	383,054
Intergovernmental payable	62,113
Deferred revenue	4,521,737
Accrued interest payable	54,287
Long-term liabilities:	
Due within one year.	613,031
Due within more than one year	16,384,338
Total liabilities	23,800,068
 Net Assets:	
Invested in capital assets, net of related debt.	2,475,301
Restricted for:	
Capital projects	1,189,606
Debt service.	965,598
Locally funded programs	10,804
State funded programs	59,031
Federally funded programs	206,347
Student activities	65,756
Public school support	37,659
Other purposes	18,991
Unrestricted.	793,623
 Total net assets	 \$ 5,822,716

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	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
Governmental activities:					
Instruction:					
Regular	\$ 8,151,901	\$ 405,536	\$ 274,116	\$ -	\$ (7,472,249)
Special	2,625,826	-	834,087	-	(1,791,739)
Vocational	64,313	-	-	-	(64,313)
Other	609,684	-	-	-	(609,684)
Support services:					
Pupil	737,655	-	17,928	-	(719,727)
Instructional staff	948,004	149	283,702	-	(664,153)
Board of education	60,357	-	-	-	(60,357)
Administration	1,528,996	-	23,604	-	(1,505,392)
Fiscal	401,064	-	-	1,080	(399,984)
Operations and maintenance	1,486,376	6,475	905	42,133	(1,436,863)
Pupil transportation	653,720	-	-	52,936	(600,784)
Central	193,625	-	6,780	-	(186,845)
Operation of non-instructional services:					
Food service operations	686,485	303,989	335,209	-	(47,287)
Other non-instructional services	51,282	2,719	18,442	11,883	(18,238)
Extracurricular activities	633,931	155,616	-	-	(478,315)
Intergovernmental pass-through	105,047	-	84,257	-	(20,790)
Interest and fiscal charges	669,547	-	-	-	(669,547)
Total governmental activities	\$ 19,607,813	\$ 874,484	\$ 1,879,030	\$ 108,032	(16,746,267)

General Revenues:

Property taxes levied for:	
General purposes	6,476,201
Debt service	1,324,035
Grants and entitlements not restricted to specific programs	
Investment earnings	385,285
Miscellaneous	52,465
Total general revenues	17,713,279
Change in net assets	967,012
Net assets at beginning of year	4,855,704
Net assets at end of year	\$ 5,822,716

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Debt Service	Building Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,300,756	\$ 418,718	\$ -	\$ 671,506	\$ 2,390,980
Investments	-	-	15,937,917	-	15,937,917
Receivables:					
Taxes	6,274,463	1,344,719	-	-	7,619,182
Accounts	432	-	-	34	466
Intergovernmental	-	-	-	338,098	338,098
Accrued interest	9,606	-	26,576	-	36,182
Interfund loans	71,117	-	-	-	71,117
Prepayments.	30,201	-	-	-	30,201
Materials and supplies inventory	17,213	-	-	12,535	29,748
Restricted assets:					
Equity in pooled cash and cash equivalents	18,991	-	-	-	18,991
Total assets	\$ 7,722,779	\$ 1,763,437	\$ 15,964,493	\$ 1,022,173	\$ 26,472,882
Liabilities:					
Accounts payable	\$ 24,354	\$ -	\$ 9,510	\$ 12,255	\$ 46,119
Accrued wages and benefits	1,524,933	-	-	210,456	1,735,389
Compensated absences payable	-	-	-	60,708	60,708
Pension obligation payable.	330,942	-	-	52,112	383,054
Intergovernmental payable.	49,296	-	-	12,817	62,113
Interfund loan payable	-	-	-	71,117	71,117
Deferred revenue.	4,196,188	897,558	26,576	186,788	5,307,110
Total liabilities	6,125,713	897,558	36,086	606,253	7,665,610
Fund Balances:					
Reserved for encumbrances	272,860	-	158,956	164,578	596,394
Reserved for materials and supplies inventory.	17,213	-	-	12,535	29,748
Reserved for prepayments	30,201	-	-	-	30,201
Reserved for property tax unavailable for appropriation	2,085,348	447,161	-	-	2,532,509
Reserved for debt service.	-	418,718	-	-	418,718
Reserved for bus purchase allowance	18,991	-	-	-	18,991
Unreserved, undesignated (deficit), reported in:					
General fund	(827,547)	-	-	-	(827,547)
Special revenue funds.	-	-	-	17,507	17,507
Capital projects funds.	-	-	15,769,451	221,300	15,990,751
Total fund balances	1,597,066	865,879	15,928,407	415,920	18,807,272
Total liabilities and fund balances	\$ 7,722,779	\$ 1,763,437	\$ 15,964,493	\$ 1,022,173	\$ 26,472,882

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total governmental fund balances		\$	18,807,272
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,954,883
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	564,936	
Intergovernmental revenue		186,788	
Accrued interest		<u>33,649</u>	
Total			785,373
Unamortized premiums on bond issuance is not recognized in the funds.			(267,892)
Unamortized bond issuance costs are not recognized in the funds.			266,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		1,187,607	
General obligation bonds payable		15,453,755	
Boiler replacement bonds payable		27,407	
Accrued interest payable		<u>54,287</u>	
Total			<u>(16,723,056)</u>
Net assets of governmental activities		\$	<u>5,822,716</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Building Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 6,420,518	\$ 1,285,689	\$ -	\$ -	\$ 7,706,207
Tuition	343,812	-	-	-	343,812
Charges for services	-	-	-	303,989	303,989
Earnings on investments	63,810	12,579	320,203	3,038	399,630
Extracurricular	135	-	-	150,890	151,025
Classroom materials and fees	60,849	-	-	656	61,505
Other local revenues	50,187	-	-	56,685	106,872
Other revenue	-	-	-	123,792	123,792
Intergovernmental - State	9,324,255	151,038	-	255,775	9,731,068
Intergovernmental - Federal	-	-	-	1,434,341	1,434,341
Total revenue	<u>16,263,566</u>	<u>1,449,306</u>	<u>320,203</u>	<u>2,329,166</u>	<u>20,362,241</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,659,597	-	-	342,049	8,001,646
Special	1,723,883	-	-	892,335	2,616,218
Vocational	60,697	-	-	-	60,697
Other	609,684	-	-	-	609,684
Support services:					
Pupil	715,109	-	-	11,210	726,319
Instructional staff	672,480	-	-	268,955	941,435
Board of education	59,507	850	-	-	60,357
Administration	1,486,842	-	-	27,273	1,514,115
Fiscal	331,754	30,143	33,551	453	395,901
Operations and maintenance	1,442,635	-	-	6,974	1,449,609
Pupil transportation	566,310	-	-	16,350	582,660
Central	177,395	-	-	7,712	185,107
Operation of non-instructional services:					
Food service operations	-	-	-	679,588	679,588
Other non-instructional services	2,935	-	-	23,334	26,269
Extracurricular activities	459,563	-	-	144,715	604,278
Intergovernmental pass-through	-	-	-	105,047	105,047
Facilities acquisition and construction	-	-	132,079	5,380	137,459
Debt service:					
Principal retirement	-	690,359	-	-	690,359
Interest and fiscal charges	-	658,742	-	-	658,742
Total expenditures	<u>15,968,391</u>	<u>1,380,094</u>	<u>165,630</u>	<u>2,531,375</u>	<u>20,045,490</u>
Excess of revenues over (under) expenditures	<u>295,175</u>	<u>69,212</u>	<u>154,573</u>	<u>(202,209)</u>	<u>316,751</u>
Other financing sources (uses):					
Transfers in	-	-	-	78,939	78,939
Transfers (out)	(78,939)	-	-	-	(78,939)
Total other financing sources (uses)	<u>(78,939)</u>	<u>-</u>	<u>-</u>	<u>78,939</u>	<u>-</u>
Net change in fund balances	216,236	69,212	154,573	(123,270)	316,751
Fund balances at					
beginning of year (restated, see note 3)	1,378,122	796,667	15,773,834	537,328	18,485,951
Increase in reserve for inventory	2,708	-	-	1,862	4,570
Fund balances at end of year	<u>\$ 1,597,066</u>	<u>\$ 865,879</u>	<u>\$ 15,928,407</u>	<u>\$ 415,920</u>	<u>\$ 18,807,272</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$ 316,751

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

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

Capital asset additions	115,928	
Current year depreciation	<u>(314,535)</u>	
Total		(198,607)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (7,919)

Premiums on debt issuances are recongnized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. 10,141

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. (10,075)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 4,570

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 212,584

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 690,359

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (10,871)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (39,921)

Change in net assets of governmental activities \$ 967,012

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,388,069	\$ 6,169,210	\$ 6,286,833	\$ 117,623
Tuition	350,699	355,500	345,141	(10,359)
Earnings on investments	63,084	45,000	62,084	17,084
Extracurricular	-	-	135	135
Classroom materials and fees	62,465	55,550	61,475	5,925
Other local revenues	64,367	43,850	63,212	19,362
Intergovernmental - State	9,399,020	9,368,115	9,324,255	(43,860)
Total revenue	<u>16,327,704</u>	<u>16,037,225</u>	<u>16,143,135</u>	<u>105,910</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,674,137	7,674,137	7,702,464	(28,327)
Special	1,894,135	1,894,135	1,842,008	52,127
Vocational	110,397	110,397	101,351	9,046
Other	604,049	604,049	611,613	(7,564)
Support services:				
Pupil	700,797	700,797	706,147	(5,350)
Instructional staff	746,549	746,549	688,442	58,107
Board of education	227,282	227,282	67,798	159,484
Administration	1,682,918	1,682,918	1,636,647	46,271
Fiscal	384,776	384,776	363,720	21,056
Operations and maintenance	1,641,209	1,641,209	1,494,762	146,447
Pupil transportation	674,773	674,773	596,261	78,512
Central	212,290	212,290	195,047	17,243
Operation of non-instructional services	2,460	2,460	2,932	(472)
Extracurricular activities	465,945	465,945	458,703	7,242
Facilities acquisition and construction	19,546	19,546	-	19,546
Total expenditures	<u>17,041,263</u>	<u>17,041,263</u>	<u>16,467,895</u>	<u>573,368</u>
Excess of revenues over (under) expenditures	<u>(713,559)</u>	<u>(1,004,038)</u>	<u>(324,760)</u>	<u>679,278</u>
Other financing sources (uses):				
Refund of prior year expenditure	55	1,500	54	(1,446)
Sale of asset	-	100	-	(100)
Transfers (out)	(80,000)	(80,000)	(78,939)	1,061
Advances in	136,066	155,000	133,910	(21,090)
Advances (out)	(75,000)	(75,000)	(106,527)	(31,527)
Total other financing sources (uses)	<u>(18,879)</u>	<u>1,600</u>	<u>(51,502)</u>	<u>(53,102)</u>
Net change in fund balance	(732,438)	(1,002,438)	(376,262)	626,176
Fund balance at beginning of year	954,840	954,840	954,840	-
Prior year encumbrances appropriated	423,929	423,929	423,929	-
Fund balance at end of year	<u>\$ 646,331</u>	<u>\$ 376,331</u>	<u>\$ 1,002,507</u>	<u>\$ 626,176</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 60,897	\$ 95,009
Total assets.	60,897	\$ 95,009
Liabilities:		
Due to students	-	\$ 95,009
Total liabilities	-	\$ 95,009
Net Assets:		
Held in trust for scholarships	60,897	
Total net assets	\$ 60,897	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$	1,186
Gifts and contributions.		<u>4,851</u>
Total additions.		<u>6,037</u>
Deductions:		
Scholarships awarded		<u>3,842</u>
Change in net assets		2,195
Net assets at beginning of year.		<u>58,702</u>
Net assets at end of year	\$	<u><u>60,897</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Galion City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1847 through the consolidation of existing land areas and districts. The District serves an area of approximately 32 square miles. It is located in Crawford County, and includes the City of Galion and Polk Township. The District is 253rd largest in the State of Ohio (among 688 districts) in terms of enrollment. It is staffed by 82 non-certificated employees and 167 certificated full-time teaching personnel who provide services to 2,204 students and other community members. The District currently operates 6 instructional buildings and one garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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. For the District, this includes general operations, foods service, preschool 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 organizations' government 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 have access to the organization's; resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the COG)

The COG is a jointly governed organization among 15 local school districts, 1 county educational service center, and 1 career technology center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member districts. The degree of control exercised by any district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Pioneer Career and Technology Center (PCTC)

The PCTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, OH 44875-0309.

PUBLIC ENTITY RISK POOLS

Wyandot-Crawford Health Benefit Plan

The District is a member of the Wyandot-Crawford Health Benefit Plan, which is a consortium established between the District, Colonel Crawford Local Schools, Carey Exempted Village Schools, Buckeye Central Local Schools, and Upper Sandusky Exempted Village Schools to act as a common risk management and insurance program. Refer to Note 11.B for further information on this insurance pool.

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program was established as an insurance purchasing pool and is governed by a three-member Board of Directors. The Executive Director of the Ohio School Boards Association, or his/her designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 11.C for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 following 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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Building Improvement Fund - This fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 only trust fund is a private-purpose trust which accounts for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. Basis of Presentation and Measurement Focus

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.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District. The comparison of direct expense with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenue of the District.

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.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2005 is as follows:

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted; however, none of these amendments were significant.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit, federal agency securities, and U.S. Government money markets. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically authorized by board resolution or statutory requirements. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$63,810 which includes \$34,573 assigned from other District funds.

For presentation on the basic 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 are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at cost on a first-in, first-out basis. Inventories in governmental funds are expensed when purchased (i.e. purchases method) while inventories of governmental activities are expensed when consumed (i.e. consumption method).

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those related to government 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a \$2,500 capitalization threshold. 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. The District does not possess infrastructure assets.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Land improvements	10 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 10 years

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten years of current service and at least forty-five years of age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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, compensated absences 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. Bonds are recognized as a liability on the fund financial statements when due.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, property tax advance unavailable for appropriation, bus purchase allowance and debt service. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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.

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 16 for details.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Interfund Activity

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 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 basic financial statements.

R. Unamortized Bond Issuance Costs/Bond Premium and Discount

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

S. Nonpublic Schools

Within the District boundaries, nonpublic schools are operated by religious organizations. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the District, as directed by the nonpublic schools. The activity of these State monies by the District is reflected in the nonmajor governmental funds for financial reporting purposes.

T. Extraordinary or 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Building Improvement</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,490,291	\$ 796,667	\$ 15,773,834	\$ -	\$ 567,496	\$ 18,628,288
GASB Technical Bulletin No. 2004-2	<u>(112,169)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,168)</u>	<u>(142,337)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 1,378,122</u>	<u>\$ 796,667</u>	<u>\$ 15,773,834</u>	<u>\$ -</u>	<u>\$ 537,328</u>	<u>\$ 18,485,951</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

Nonmajor Funds

Food Service	\$ 34,927
Termination Benefits	60,708
Disadvantaged Pupil Impact Aid	7,625
Title VI-B	17,944
Title I	8,503
Reducing Class Size	3,760

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

A. Deposits with Financial Institutions

At June 20, 2005, the carrying amount of all District deposits was \$1,513,616. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$522,663 of the District's bank balance of \$1,580,663 was exposed to custodial risk as discussed below, while \$1,058,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Investment Maturities		
	Balance at Fair Value	6 months or less	7 to 12 months
US Government Money Market	\$ 16,268	\$ 16,268	\$ -
STAR Ohio	1,052,261	1,052,261	-
FHLB	5,986,336	2,485,938	3,500,398
FNMA	3,604,953	3,604,953	-
FHLMC	6,330,360	1,768,320	4,562,040
	<u>\$ 16,990,178</u>	<u>\$ 8,927,740</u>	<u>\$ 8,062,438</u>

The weighted average maturity of investments is .56 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a AAAm money market rating.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
US Government Money Market	\$ 16,268	0.10
STAR Ohio	1,052,261	6.19
FHLB	5,986,336	35.23
FNMA	3,604,953	21.22
FHLMC	6,330,360	37.26
	<u>\$ 16,990,178</u>	<u>100.00</u>

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,513,616
Investments	16,990,178
Total	<u>\$ 18,503,794</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 18,347,888
Private-purpose trust funds	60,897
Agency funds	95,009
Total	<u>\$ 18,503,794</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 71,117

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

Transfers to Nonmajor Governmental Funds:	<u>Amount</u>
General Fund	\$78,939

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Crawford, Richland and Morrow Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$2,085,348 in the general fund and \$447,161 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$1,951,663 in the general fund and \$412,743 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 167,527,420	83.31	\$ 168,508,490	86.15
Public Utility Personal	4,855,190	2.41	4,652,240	2.38
Tangible Personal Property	<u>28,711,743</u>	<u>14.28</u>	<u>22,447,970</u>	<u>11.47</u>
 Total	 <u>\$ 201,094,353</u>	 <u>100.00</u>	 <u>\$ 195,608,700</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 66.30		 \$ 66.30	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. 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 receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes	\$ 7,619,182
Accounts	466
Intergovernmental	338,098
Accrued interest	<u>36,182</u>
Total	<u>\$ 7,993,928</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 – RECEIVABLES (Continued)

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 895,355	\$ -	\$ -	\$ 895,355
Total capital assets, not being depreciated	<u>895,355</u>	<u>-</u>	<u>-</u>	<u>895,355</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	611,742	84,575	-	696,317
Buildings and improvements	6,590,108	-	-	6,590,108
Furniture and equipment	739,262	14,353	(18,786)	734,829
Vehicles	889,937	17,000	(25,138)	881,799
Total capital assets, being depreciated	<u>8,831,049</u>	<u>115,928</u>	<u>(43,924)</u>	<u>8,903,053</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(409,038)	(29,327)	-	(438,365)
Buildings and improvements	(5,103,969)	(128,322)	-	(5,232,291)
Furniture and equipment	(434,457)	(80,586)	10,867	(504,176)
Vehicles	(617,531)	(76,300)	25,138	(668,693)
Total accumulated depreciation	<u>(6,564,995)</u>	<u>(314,535)</u>	<u>36,005</u>	<u>(6,843,525)</u>
Governmental activities capital assets, net	<u>\$ 3,161,409</u>	<u>\$ (198,607)</u>	<u>\$ (7,919)</u>	<u>\$ 2,954,883</u>

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 124,797
Special	12,152
Vocational	3,354

Support Services:

Pupil	1,779
Instructional staff	7,886
Administration	14,627
Fiscal	2,681
Operations and maintenance	30,296
Pupil transportation	68,062
Central	8,123
Noninstructional operations	3,482
Extracurricular activities	29,653
Food service operations	7,643

Total depreciation expense \$ 314,535

NOTE 9 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	Balance Outstanding July 1, 2004	Additions	Reductions	Balance Outstanding June 30, 2005	Amounts Due in One Year
Governmental Activities:					
<u>General Obligation Bonds:</u>					
General obligation bonds	\$ 21,685	\$ -	\$ (14,265)	\$ 7,420	\$ 7,420
Boiler replacement	33,501	-	(6,094)	27,407	6,383
School improvement bonds	16,103,089	13,246	(670,000)	15,446,335	430,000
Total general obligation bonds payable	<u>\$ 16,158,275</u>	<u>\$ 13,246</u>	<u>\$ (690,359)</u>	<u>\$ 15,481,162</u>	<u>\$ 443,803</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	\$ 1,176,625	\$ 202,925	\$ (131,235)	\$ 1,248,315	\$ 169,228
Total governmental activities	<u>\$ 17,334,900</u>	<u>\$ 216,171</u>	<u>\$ (821,594)</u>	\$ 16,729,477	<u>\$ 613,031</u>
Add: Unamortized premium on bond issue				267,892	
Total on statement of net assets				<u>\$ 16,997,369</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

- B. Elevator Construction General Obligation Bonds** - On August 25, 1995, the District issued \$115,000 in voted general obligation bonds for the purpose of acquiring and installing an elevator and wheelchair access ramp. The bonds were issued for a ten-year period with final maturity at December 1, 2005. The bonds will be retired from the debt service fund. The interest rate is 5.4 percent.

The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

<u>Fiscal Year Ending</u>	<u>Principal on Bonds</u>	<u>Interest on Bonds</u>	<u>Total</u>
2006	\$ 7,420	\$ 200	\$ 7,620
Total	<u>\$ 7,420</u>	<u>\$ 200</u>	<u>\$ 7,620</u>

- C. Boiler Replacement Bonds** – On May 21, 1999, the District issued \$60,000 in unvoted general obligation bonds for the purpose of replacing a boiler. The bonds were issued for a ten-year period with the final maturity at June 1, 2009. The bonds will be retired from the debt service fund. The interest rate is 4.685 percent.

Principal and interest requirements to retire the boiler replacement bonds outstanding at June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,383	\$ 1,210	\$ 7,593
2007	6,686	908	7,594
2008	7,003	591	7,594
2009	<u>7,335</u>	<u>259</u>	<u>7,594</u>
Total	<u>\$ 27,407</u>	<u>\$ 2,968</u>	<u>\$ 30,375</u>

- D.** During fiscal year 2004, the District issued \$16,100,000 in general obligation bonds to provide funds for various District building projects. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$15,990,000, and capital appreciation bonds, par value \$110,000. The interest rates on the current interest bonds range from 2.00% to 4.00%. The capital appreciation bonds mature on December 1, 2012 (effective interest 11.417%), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value reported in the Statement of Net Assets at June 30, 2005, was \$126,335. A total of \$16,335 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2005.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2032.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The following is a schedule of activity for fiscal 2005 on the general obligation bonds:

	Balance <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/05</u>
Current interest bonds	\$ 15,990,000	\$ -	\$ (670,000)	\$ 15,320,000
Capital appreciation bonds	<u>113,089</u>	<u>13,246</u>	<u>-</u>	<u>126,335</u>
Total G.O. bonds	<u>\$ 16,103,089</u>	<u>\$ 13,246</u>	<u>\$ (670,000)</u>	<u>\$ 15,446,335</u>

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

<u>Year Ended</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 430,000	\$ 645,265	\$ 1,075,265	\$ -	\$ -	\$ -
2007	180,000	639,165	819,165	-	-	-
2008	210,000	635,265	845,265	-	-	-
2009	220,000	630,964	850,964	-	-	-
2010	230,000	626,062	856,062	-	-	-
2011 - 2015	1,190,000	3,217,967	4,407,967	290,000	-	290,000
2016 - 2020	2,175,000	2,712,425	4,887,425	-	-	-
2021 - 2025	3,340,000	2,036,875	5,376,875	-	-	-
2026 - 2030	4,895,000	1,071,764	5,966,764	-	-	-
2031 - 2032	<u>2,450,000</u>	<u>106,251</u>	<u>2,556,251</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,320,000</u>	<u>\$ 12,322,003</u>	<u>\$ 27,642,003</u>	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ 290,000</u>

E. Legal Debt Margin

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 effects of these debt limitations at June 30, 2005 are a voted debt margin of \$3,016,907 (including available funds of \$865,879) and an unvoted debt margin of \$195,609.

NOTE 10 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 47 days for classified employees and 60 days for certified employees.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is subject to various risks of loss related to torts, theft of, or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District's maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles.

Vehicle policies include liability coverage for bodily injury and property damage and uninsured motorists. The liability limits are \$2,000,000 for each accident and medical coverage of \$5,000 per person.

Real property and contents are fully insured. Limits of insurance on property and equipment are \$46,177,778.

The umbrella liability policy is \$5,000,000 for each occurrence and \$5,000,000 aggregate.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from prior year.

B. Employee Health Insurance

The District has joined together with Carey Exempted Village District, Colonel Crawford Local District, Buckeye Central Local School District, and Upper Sandusky Exempted Village District to form the Wyandot-Crawford Health Benefit Plan (WCHBP), a public entity shared risk pool, operating as a common risk management and insurance program for the member Districts. The plan was organized to provide benefit coverage for employees and dependents and designated beneficiaries of such employees.

The Huntington National Bank serves as trustee for the WCHBP. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

C. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the immediate Past President of the OSBA. The Executive Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - RISK MANAGEMENT (Continued)

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 Districts that can meet the GRP's selection criteria. The firm of Gates-McDonald & Company provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$262,532, \$275,829 and \$271,246, respectively; 45% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$144,276 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 retirement and disability benefits, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLAN (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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,199,471, \$1,215,783, and \$1,168,379, respectively; 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$201,616 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$10,675 made by the District and \$15,423 made by plan members.

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 have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$85,677 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$102,265 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances are recorded as the equivalent of an expenditure (budget basis), as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (376,262)
Net adjustment for revenue accruals	120,431
Net adjustment for expenditure accruals	182,264
Net adjustment for other sources/uses	(27,437)
Adjustment for encumbrances	<u>317,240</u>
GAAP basis	<u>\$ 216,236</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (322,756)	\$ (292,714)
Current year set-aside requirement	314,021	314,021
Qualifying disbursements	<u>(260,151)</u>	<u>(237,428)</u>
Total	<u>\$ (268,886)</u>	<u>\$ (216,121)</u>
Cash balance carried forward to FY 2006	<u>\$ (268,886)</u>	<u>\$ (216,121)</u>

The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years. The negative amount in the capital acquisition reserve may not be carried forward.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for school bus purchases	<u>\$ 18,991</u>
--	------------------

NOTE 17 – SUBSEQUENT EVENT

On August 30, 2005, the School District signed a project agreement with the Ohio School Facilities Commission to demolish all existing school buildings and to build two new elementary schools, one middle school, and one high school. The state and local portions of the project were \$38,172,476 and \$12,054,000, respectively.

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

<u>FEDERAL GRANTOR</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
Pass Through Grantor Program Title						
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$45,402	\$0	\$45,402
Federal School Breakfast Program	044024-05PU-2004	10.553	6,845	0	6,845	0
	044024-05PU-2005		47,320	0	47,320	0
Total Federal School Breakfast Program			54,165	0	54,165	0
National School Lunch Program	044024-LLP4-2004	10.555	32,228	0	32,228	0
	044024-LLP4-2005		189,776	0	189,776	0
Total National School Lunch Program			222,004	0	222,004	0
Total U.S. Department of Agriculture - Nutrition Cluster			276,169	45,402	276,169	45,402
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	044024-6BSF-2004	84.027	51,498	0	24,261	0
	044024-6BSF-2005		408,861	0	384,461	0
Total Special Education Grants to States			460,359	0	408,722	0
Special Education - Preschool Grant	044024-PGS1-2004	84.173	0	0	652	0
	044024-PGS1-2005		16,562	0	16,065	0
Total Special Education - Preschool Grant			16,562	0	16,717	0
Total Special Education Cluster			476,921	0	425,439	0
Title I Grants to Local Educational Agencies	044024-C1S1-2004	84.010	16,115	0	71,598	0
	044024-C1S1-2005		466,594	0	453,936	0
Total Title I Grants to Local Educational Agencies			482,709	0	525,534	0
Innovative Education Program Strategies	044024-C2S1-2004	84.298	(251)	0	0	0
	044024-C2S1-2005		10,224	0	10,437	0
Total Innovative Education Program Strategies			9,973	0	10,437	0
Improving Teacher Quality State Grants	044024-TRS1-2004	84.367	48,220	0	22,367	0
	044024-TRS1-2005		109,620	0	119,698	0
Total Improving Teacher Quality State Grants			157,840	0	142,065	0
Safe & Drug-Free Schools and Communities State Grant	044024-DRS1-2004	84.186	0	0	475	0
	044024-DRS1-2005		6,685	0	6,526	0
Total Safe & Drug-Free Schools and Communities State Grant			6,685	0	7,001	0
Technology Literacy Challenge Fund Grant	044024-TJS1-2004	84.318	(50)	0	6,268	0
	044024-TJS1-2005		12,201	0	11,564	0
Total Technology Literacy Challenge Fund Grant			12,151	0	17,832	0
Comprehensive School Reform Demonstration	044024-RFCC-2004	84.332	5,512	0	16,078	0
	044024-RFCC-2005		15,324	0	25,393	0
Total Comprehensive School Reform Demonstration			20,836	0	41,471	0
Total U.S. Department of Education			1,167,115	0	1,169,779	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	34-6400544	93.778	76,476	0	76,476	0
State Childrens Insurance Program	34-6400544	93.767	8,939	0	8,939	0
Total U.S. Department of Health and Human Services			85,415	0	85,415	0
TOTAL FEDERAL AWARDS			\$1,528,699	\$45,402	\$1,531,363	\$45,402

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

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.



Auditor of State Betty Montgomery

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

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

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 Galion City School District, Crawford County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 14, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

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Galion City School District
Crawford County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

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

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

Betty Montgomery
Auditor of State

December 14, 2005



Auditor of State Betty Montgomery

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

Galion City School District
Crawford County
200 West Church Street
Galion, Ohio 44833

To the Board of Education:

Compliance

We have audited the compliance of the Galion City School District, Crawford County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The 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 express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated December 14, 2005, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

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

Betty Montgomery
Auditor of State

December 14, 2005

**GALION CITY SCHOOL DISTRICT
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010 <u>Child Nutrition Cluster</u> Food Distribution – CFDA #10.550 School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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GALION CITY SCHOOL DISTRICT

CRAWFORD 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 30, 2005**