



**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Gorham Fayette Local School District
Fulton County
311 North Eagle Street, PO Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30, 2007, 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 Gorham Fayette Local School District, Fulton County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof 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 February 5, 2008, 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.

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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.

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

Mary Taylor, CPA
Auditor of State

February 5, 2008

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the financial performance of Gorham Fayette Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- In 2007, the District is constructing a new school facility through the Ohio School Facility Commission. The total construction cost of the project is \$16,826,036. A significant portion \$12,702,266 is being funded by the State of Ohio.
- In total, net assets increased \$3,416,184.
- General revenues accounted for \$5,107,737, or 50 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$1,238,701 or 12 percent of total revenues. Proceeds from lawsuit settlement disclosed as a special item in the amount of \$3,900,000 comprise the remainder of revenues.
- The District's major funds included the General Fund and the Classroom Facilities Fund. The General Fund had \$8,502,721 in revenues and \$5,745,108 in expenditures and other financing uses. The General Fund's balance increased \$2,757,613 from the prior fiscal year. The Classroom Facilities Fund had \$9,197,363 in revenues and \$3,191,023 in expenditures. The Classroom Facilities Fund's balance increased \$6,006,340 from the prior fiscal year.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Classroom Facilities Fund are the major funds.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 1
Net Assets
Governmental Activities**

	2007	2006 Restated
<u>Assets:</u>		
Current and Other Assets	\$21,767,959	\$21,384,905
Capital Assets, Net	6,953,213	3,664,528
Total Assets	28,721,172	25,049,433
 <u>Liabilities:</u>		
Current and Other Liabilities	2,412,636	2,034,922
Long-Term Liabilities	6,930,806	7,052,965
Total Liabilities	9,343,442	9,087,887
 <u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,699,153	1,986,540
Restricted	15,567,357	18,021,108
Unrestricted	2,111,220	(4,220,156)
Total	\$19,377,730	\$15,961,546

The increase in capital assets, net was attributed to the construction in progress of new buildings. Net Assets increased due to the proceeds received from the lawsuit settlement of \$3,900,000.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 2
Change in Net Assets
Governmental Activities**

	2007	2006 Restated
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$281,430	\$299,884
Operating Grants, Contributions and Interest	736,857	467,135
Capital Grants and Contributions	220,414	12,705,998
Total Program Revenues	<u>1,238,701</u>	<u>13,473,017</u>
General Revenues:		
Revenue in Lieu of Taxes	259,383	278,332
Property Taxes	1,497,689	1,480,211
Income Taxes	416,326	397,166
Grants and Entitlements	2,408,690	3,536,823
Investment Earnings	464,599	218,848
Net Decrease in Fair Value of Investments		(22,449)
Gifts and Donations	491	2,230
Miscellaneous	60,559	68,350
Total General Revenues	<u>5,107,737</u>	<u>5,959,511</u>
Special Item: Legal Settlement	<u>3,900,000</u>	
Total General Revenues and Special Item	<u>9,007,737</u>	<u>5,959,511</u>
Total Revenues	<u>10,246,438</u>	<u>19,432,528</u>
Expenses:		
Instruction	2,979,460	2,905,375
Support Services:		
Pupils	287,651	286,072
Instructional Staff	222,498	284,549
Board of Education	1,107,899	108,148
Administration	494,254	443,812
Fiscal	176,226	173,507
Operation and Maintenance of Plant	585,422	582,348
Pupil Transportation	213,692	221,026
Central	43,804	28,520
Non-Instructional	188,017	180,258
Extracurricular Activities	168,730	185,311
Capital Outlay	353,050	
Interest and Fiscal Charges	362,601	196,742
Total Expenses	<u>6,830,254</u>	<u>5,595,668</u>
Increase in Net Assets	<u>\$3,416,184</u>	<u>\$13,836,860</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The decrease in revenues was due to \$12,702,286, the state portion of the Ohio School Facilities Commission construction project, being recognized as revenue in 2006. In 2007, the District received \$3,900,000 for a settlement of a lawsuit against D.H. Holdings and Hutchinson FTS Inc. In addition, legal fees related to this lawsuit, of approximately \$1,000,000 were paid out in 2007.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2007</u>	<u>2007</u>	<u>2006 Restated</u>	<u>2006 Restated</u>
Instruction	\$2,979,460	\$2,012,546	\$2,905,375	(\$10,305,865)
Support Services:				
Pupils	287,651	287,009	286,072	279,006
Instructional Staff	222,498	185,106	284,549	258,490
Board of Education	1,107,899	1,107,899	108,148	108,148
Administration	494,254	494,254	443,812	443,812
Fiscal	176,226	176,226	173,507	173,507
Operation and Maintenance of Plant	585,422	585,422	582,348	582,348
Pupil Transportation	213,692	202,328	221,026	221,026
Central	43,804	38,804	28,520	23,520
Non-Instructional	188,017	17,695	180,258	16,045
Extracurricular Activities	168,730	121,663	185,311	125,872
Interest and Fiscal Charges	362,601	362,601	196,742	196,742
Total Expenses	<u>\$6,830,254</u>	<u>\$5,591,553</u>	<u>\$5,503,948</u>	<u>(\$7,877,349)</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 67 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 81 percent. The remaining 19 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Classroom Facilities Fund. Total governmental funds had revenues and other financing sources of \$18,977,804 and expenditures and other financing uses of \$10,214,644. The net positive change of \$8,763,160 in fund balance for the year indicates that the District is able to meet current costs.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2007, the District amended its General Fund budget as needed. There were no significant changes from original budgeted amounts in 2007.

Original budgeted revenues did not anticipate the lawsuit settlement proceeds of \$3,900,000. Final budgeted revenues and other financing sources did not vary significantly from actual amounts. Original budgeted expenditures also did not include legal fees of approximately \$1,000,000 from the settlement of the lawsuit. Final expenditures and other financing uses were budgeted at \$6,196,034 while actual expenditures and other financing uses were \$5,789,564. The \$406,470 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$6,953,213 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

Debt

At June 30, 2007, the District had \$6,719,525 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2034. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2007, the District's overall legal debt margin was (\$3,409,397) with an un-voted debt margin of \$37,579.

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

Current Issues

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

The District is currently operating in the second year of the state biennium budget. According to the 2007 Local District Report Card, 42.8 percent of District revenue sources is from local funds, 51.9 percent is from state funds and the remaining 5.3 percent is from federal funds. The total expenditure per pupil was calculated at \$10,246.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The District has been approved by the Ohio School Facilities Commission for a new PreK-12 building. This approval is through the Extreme Environmental Contamination Program because the high school building has contamination underneath it. Site work for the new K-12 building started in September 2006.

In August 2005, the District passed a 28-year bond issue to generate \$4,885,000 and also included .5 mill for maintenance in the new building. This bond issue provides the funds for an Ohio School Facilities Commission (OSFC) construction project. The funds break down into \$3,196,947 as the local share required by the OSFC and \$1,688,053 for locally funded initiatives, which include the purchase of land. In October 2005, the OSFC certified approval for the state's share of the project, which is \$13,629,089.

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

The District has two businesses that will be operating soon that are receiving 100% abatements on real estate. These agreements are classified under what is called a Community Reinvestment Area Project, which means that the District will receive no donation for the abatement like we do on all of our other abatements.

Contacting the District's Financial Management

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2007**

		<u>Governmental Activities</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	15,328,021
Materials and Supplies Inventory		3,834
Accrued Interest Receivable		1,076
Accounts Receivable		8,889
Intergovernmental Receivable		4,068,973
Prepaid Items		1,245
Taxes Receivable		2,043,277
Income Taxes Receivable		181,287
Deferred Charges		131,357
Capital Assets:		
Non-Depreciable Capital Assets		4,205,350
Depreciable Capital Assets, net		2,747,863
Total Assets		<u>28,721,172</u>
 LIABILITIES:		
Accounts Payable		
Accrued Wages and Benefits		347,918
Contracts Payable		8,827
Intergovernmental Payable		104,921
Deferred Revenue		1,895,603
Matured Compensated Absences		55,367
Long-Term Liabilities:		
Due Within One Year		201,243
Due in More Than One Year		6,729,563
Total Liabilities		<u>9,343,442</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,699,153
Restricted for Debt Service		257,761
Restricted for Capital Outlay		15,145,823
Restricted for Other Purposes		163,773
Unrestricted		2,111,220
Total Net Assets	\$	<u>19,377,730</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 2,313,674	\$ 141,710	\$ 262,878	\$ 220,414	(1,688,672)
Special	558,723		314,498		(244,225)
Vocational	68,626		18,525		(50,101)
Other	38,437		8,889		(29,548)
Support Services:					
Pupils	287,651		642		(287,009)
Instructional Staff	222,498		37,392		(185,106)
Board of Education	1,107,899				(1,107,899)
Administration	494,254				(494,254)
Fiscal	176,226				(176,226)
Operation and Maintenance of Plant	585,422				(585,422)
Pupil Transportation	213,692		11,364		(202,328)
Central	43,804		5,000		(38,804)
Operation of Non-Instructional Services	188,017	92,653	77,669		(17,695)
Extracurricular Activities	168,730	47,067			(121,663)
Debt Service:					
Interest and Fiscal Charges	362,601				(362,601)
Totals	\$ 6,830,254	\$ 281,430	\$ 736,857	\$ 220,414	(5,591,553)

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	1,100,179
Property Taxes, Levied for Debt Service	380,310
Property Taxes, Levied for Other Purposes	17,200
Income Taxes	416,326
Grants and Entitlements not Restricted to Specific Programs	2,408,690
Gifts and Donations	491
Investment Earnings	464,599
Payments in Lieu of Taxes	259,383
Miscellaneous	60,559
Total General Revenues	5,107,737

Special Item:

Proceeds from the settlement of a lawsuit	3,900,000
Change in Net Assets	3,416,184
Net Assets Beginning of Year	15,961,546
Net Assets End of Year	\$ 19,377,730

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2007**

	General Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 3,794,615	\$ 9,830,829	\$ 1,702,577	\$ 15,328,021
Materials and Supplies Inventory	1,536		2,298	3,834
Accrued Interest Receivable	1,076			1,076
Accounts Receivable	7,639		1,250	8,889
Interfund Receivable	42,397			42,397
Intergovernmental Receivable		3,982,849	86,124	4,068,973
Prepaid Items	1,245			1,245
Taxes Receivable	1,541,355		501,922	2,043,277
Income Taxes Receivable	181,287			181,287
Total Assets	\$ 5,571,150	\$ 13,813,678	\$ 2,294,171	\$ 21,678,999
Liabilities				
Current Liabilities:				
Accrued Wages and Benefits	335,476		12,442	347,918
Contracts Payable		8,827		8,827
Interfund Payable			42,397	42,397
Intergovernmental Payable	98,996		5,925	104,921
Matured Compensated Absences Payable	55,367			55,367
Deferred Revenue	1,510,444	3,982,849	481,378	5,974,671
	2,000,283	3,991,676	542,142	6,534,101
Fund Balances				
Reserved:				
Reserved for Encumbrances	68,221		27,463	95,684
Reserved for Inventory	1,536		2,298	3,834
Reserved for Prepaid Items	1,245			1,245
Reserved for Property Taxes	58,333		22,551	80,884
Unreserved, Undesignated, Reported in:				
General Fund	3,441,532			3,441,532
Special Revenue Funds			130,488	130,488
Debt Service Funds			228,257	228,257
Capital Projects Funds		9,822,002	1,340,972	11,162,974
Total Fund Balances	3,570,867	9,822,002	1,752,029	15,144,898
Total Liabilities and Fund Balances	\$ 5,571,150	\$ 13,813,678	\$ 2,294,171	\$ 21,678,999

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007**

Total Governmental Fund Balances	\$	15,144,898
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		6,953,213
Other long term assets that do not provide financial resources are not reported as revenues in governmental funds.		4,079,068
Unamortized Bond Costs		131,357
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$	(6,719,525)
Compensated Absences Payable		(211,281)
		(6,930,806)
Net Assets of Governmental Activities	\$	19,377,730

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Classroom Facilities Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,090,080	\$	\$ 404,512	\$ 1,494,592
Income Tax	417,489			417,489
Intergovernmental	2,526,135	8,939,851	618,045	12,084,031
Interest	125,403	254,083	81,684	461,170
Decrease in Fair Value of Investments		3,429		3,429
Tuition and Fees	122,813			122,813
Rent	995			995
Extracurricular Activities			64,919	64,919
Gifts and Donations	300		191	491
Customer Sales and Services	50		92,653	92,703
Payments in Lieu of Taxes	259,383			259,383
Miscellaneous	60,073		486	60,559
Total Revenues	<u>4,602,721</u>	<u>9,197,363</u>	<u>1,262,490</u>	<u>15,062,574</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,163,082		144,794	2,307,876
Special	398,508		157,705	556,213
Vocational	87,686			87,686
Other	33,726		4,711	38,437
Support Services:				
Pupils	261,546		43,177	304,723
Instructional Staff	183,918		12,603	196,521
Board of Education	1,107,899			1,107,899
Administration	482,415		13,094	495,509
Fiscal	165,020		9,229	174,249
Operation and Maintenance of Plant	435,983		6,808	442,791
Pupil Transportation	231,469		4,465	235,934
Central	37,116		6,688	43,804
Operation of Non-Instructional Services	2,300		182,922	185,222
Extracurricular Activities	122,811		44,789	167,600
Capital Outlay	16,399	3,191,023	243,838	3,451,260
Debt Service:				
Principal			85,000	85,000
Interest			318,690	318,690
Total Expenditures	<u>5,729,878</u>	<u>3,191,023</u>	<u>1,278,513</u>	<u>10,199,414</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,127,157)</u>	<u>6,006,340</u>	<u>(16,023)</u>	<u>4,863,160</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			15,230	15,230
Transfers Out	(15,230)			(15,230)
Total Other Financing Sources and Uses	<u>(15,230)</u>		<u>15,230</u>	
Special Item:				
Proceeds from Lawsuit Settlement	3,900,000			3,900,000
Net Change in Fund Balances	2,757,613	6,006,340	(793)	8,763,160
Fund Balance at Beginning of Year	813,254	3,815,662	1,752,822	6,381,738
Fund Balance at End of Year	<u>\$ 3,570,867</u>	<u>\$ 9,822,002</u>	<u>\$ 1,752,029</u>	<u>\$ 15,144,898</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds \$ 8,763,160

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

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

Capital Outlay - Depreciable Capital Assets	\$ 3,450,418	
Depreciation	<u>(159,804)</u>	
		3,290,614

The cost of the capital assets disposed of is removed from the capital asset account on the statement of net assets resulting in loss on the on the statement of activities.

Loss on Disposal of Capital Assets		(1,929)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(8,718,070)	
Delinquent Property Taxes	3,097	
Income Taxes	<u>(1,163)</u>	
		(8,716,136)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

85,000

Interest charges reported on the statement of activities, that do no require the use of current financial resources, are not reported as expenditures in governmental funds.

(43,911)

Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable		39,386
Change in Net Assets of Governmental Activities	\$	<u><u>3,416,184</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,075,000	\$ 1,075,000	\$ 1,080,012	\$ 5,012
Income Tax	380,000	380,000	402,082	22,082
Intergovernmental	2,416,200	2,419,807	2,526,135	106,328
Interest	55,000	55,000	125,667	70,667
Tuition and Fees	122,000	122,000	122,891	891
Rent	1,500	1,500	995	(505)
Gifts and Donations	2,500	2,500	300	(2,200)
Customer Sales and Services	500	500	50	(450)
Payments in Lieu of Taxes	270,417	270,417	259,383	(11,034)
Miscellaneous	40,300	40,300	56,857	16,557
Total Revenues	<u>4,363,417</u>	<u>4,367,024</u>	<u>4,574,372</u>	<u>207,348</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,185,153	2,188,538	2,136,846	51,692
Special	488,183	491,183	394,865	96,318
Vocational	106,793	107,373	91,182	16,191
Other	30,405	37,814	33,855	3,959
Support Services:				
Pupils	329,695	334,005	260,027	73,978
Instructional Staff	206,788	204,982	181,464	23,518
Board of Education	149,204	1,190,028	1,141,151	48,877
Administration	469,714	482,392	475,358	7,034
Fiscal	177,925	184,925	162,422	22,503
Operation and Maintenance of Plant	449,577	460,050	429,997	30,053
Pupil Transportation	236,268	254,495	250,385	4,110
Central	39,100	39,100	37,116	1,984
Operation of Non-Instructional Services	2,500	2,500	2,300	200
Extracurricular Activities	135,710	139,555	120,342	19,213
Capital Outlay	7,000	23,039	16,399	6,640
Total Expenditures	<u>5,014,015</u>	<u>6,139,979</u>	<u>5,733,709</u>	<u>406,270</u>
Excess of Revenues Under Expenditures	<u>(650,598)</u>	<u>(1,772,955)</u>	<u>(1,159,337)</u>	<u>613,618</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	250	250		(250)
Refund of Prior Year Expenditures	500	500		(500)
Refund of Prior Year Receipts	(200)	(200)		200
Transfers Out	(10,000)	(15,230)	(15,230)	
Advances Out	(5,000)	(40,625)	(40,625)	
Total Other Financing Sources and Uses	<u>(14,450)</u>	<u>(55,305)</u>	<u>(55,855)</u>	<u>(550)</u>
Special Item:				
Proceeds from Lawsuit Settlement		3,900,000	3,900,000	
Net Change in Fund Balances	(665,048)	2,071,740	2,684,808	613,068
Fund Balance at Beginning of Year	996,202	996,202	996,202	
Prior Year Encumbrances Appropriated	44,337	44,337	44,337	
Fund Balance at End of Year	<u>\$ 375,491</u>	<u>\$ 3,112,279</u>	<u>\$ 3,725,347</u>	<u>\$ 613,068</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>15,975</u>	\$ <u>21,923</u>
Total Assets	<u>15,975</u>	<u>21,923</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u> </u>	<u>21,923</u>
Total Liabilities	<u> </u>	<u>21,923</u>
Net Assets		
Held in Trust for Scholarships	<u>15,975</u>	<u> </u>
Total Net Assets	<u>\$ <u>15,975</u></u>	<u>\$ <u> </u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>827</u>
Total Additions	<u>827</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>650</u>
Total Deductions	<u>650</u>
Change in Net Assets	177
Net Assets Beginning of Year	<u>15,798</u>
Net Assets End of Year	\$ <u><u>15,975</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Gorham Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Gorham Fayette Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 18 non-certified personnel and 47 certified full-time teaching personnel who provide services to 477 students and other community members.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

Classroom Facilities Fund - The Classroom Facilities Fund is used to account for the revenues and expenditures related to the construction of new school buildings.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2007, investments were limited to federal agency securities and STAR Ohio. Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2007. 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, 2007.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$125,403, which includes \$10,903 assigned from other funds. Interest in the amount of \$336,594 was credited to other District funds.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music, athletic programs, and federal and state grants restricted to expenditures for specific purposes. As of June 30, 2007, there were no assets restricted by enabling legislation.

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. Fund Balance Reserves

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

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

N. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities are eliminated on the government wide statement of net assets.

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 financial statements.

O. Prepaid Items

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

P. Estimates

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

Q. Pass-Through Grants

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. The District had a special item in fiscal year 2007. The District received a legal settlement payment in the amount of \$3,900,000.

3. ACCOUNTING CHANGE

Certain capital assets which were disposed of in prior fiscal years were not removed from the financial statements in prior years.

Grant monies related to the District's Ohio School Facilities Commission (OSFC) construction project were not recognized as revenue on the government-wide financial statements in prior years.

These changes had the following effects on net assets:

	Governmental Activities
Net Assets, as previously reported at June 30, 2006	\$ 3,350,980
OSFC grant monies	12,702,286
Capital Asset disposals	(91,720)
Net Assets, as restated at July 1, 2006	\$ 15,961,546

4. BUDGETARY BASIS OF ACCOUNTING

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	\$2,757,613
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2006, Received In Cash FY 2007	192,564
Accrued FY 2007, Not Yet Received in Cash	(220,913)
Expenditure Accruals:	
Accrued FY 2006, Paid in Cash FY 2007	(422,668)
Accrued FY 2007, Not Yet Paid in Cash	487,058
Advances Out	(40,625)
Encumbrances Outstanding at Year End (Budget Basis)	(68,221)
Budget Basis	\$2,684,808

5. DEPOSITS AND INVESTMENTS

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

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

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

Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts. Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

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

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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$8,388,625 of the District's bank balance of \$8,624,964 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Maturities 6 months or less</u>	<u>Maturities 7 to 12 Months</u>	<u>Maturities 13 to 18 Months</u>	<u>Maturities 19 to 24 Months</u>
Federal National Mortgage Association (FNMA) Notes	\$981,612				\$981,612
Federal Home Loan Bank Bonds	4,388,887	\$2,192,066	\$1,357,119	\$640,764	198,938
STAR Ohio	2,417,352	2,417,352			
Total Investments	<u>\$7,787,851</u>	<u>\$4,609,418</u>	<u>\$1,357,119</u>	<u>\$640,764</u>	<u>\$1,180,550</u>

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk – The following investments carry the highest ratings by Moody’s and Standard and Poor’s:

<u>Investment Type</u>	<u>Moody’s</u>	<u>Standard & Poor’s</u>
Federal Home Loan Mortgage Association	Aaa	AAA
Federal Home Loan Bank	Aaa	AAA
STAR Ohio		AAAm

Ohio Law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, and the Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal Home Loan Mortgage Association Notes, Federal Home Loan Bank Bonds and Star Ohio represent 13 percent, 56 percent, and 31percent, respectively, of the District's total investments.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes for 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2007 were levied after April 1, 2006, on the assessed values as of December 31, 2005, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes for 2007 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fulton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2007 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES – (Continued)

The amount available as an advance at June 30, 2007, was \$58,333 in the General Fund, \$21,600 in the Bond Retirement Fund, and \$951 in the Maintenance Fund (Other Governmental Funds). The amount available as an advance at June 30, 2006, was \$48,265 in the General Fund and \$18,665 in the Bond Retirement Fund and \$821 in the Maintenance Fund (Other Governmental Funds).

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$30,105,450	79%	\$30,279,550	81%
Industrial/Commercial	3,740,840	10%	3,581,190	9%
Public Utility	2,035,080	5%	2,210,060	6%
Tangible Personal	2,333,769	6%	1,508,397	4%
Total Assessed Value	<u>\$38,215,139</u>	<u>100%</u>	<u>\$37,579,197</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$62.76		\$62.76	

7. INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2007, the District recorded income tax revenue of \$417,489 in the General Fund, of which \$181,287 is recorded as a receivable at June 30, 2007.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2007, consisted of property, income tax, intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

	Amount
Accounts Receivable:	
General Fund	
Tuition and Fees	\$7,639
All Other Governmental Funds	
Extracurricular Activities	1,250
Total Accounts Receivable	\$8,889
Intergovernmental Receivable:	
Classroom Facilities Fund	
School Facilities Construction Grant	\$3,982,849
All Other Governmental Funds	
State Grant Monies:	
Lunchroom	6,333
Public Preschool Grant	23,976
Entry Year Teaching Program	3,200
Ohio Reads Grant	7,371
Miscellaneous	33,400
Federal Grant Monies	
Title VI Grant	578
Drug Free Schools	819
Title II-A Grant	3,450
Rural Education Achievement Grant	6,997
Total All Other Government Funds	86,124
Total Intergovernmental Receivable	\$4,068,973

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance at 6/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/07</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$313,826			\$313,826
Construction in Progress	465,489	\$3,426,035		3,891,524
Total Nondepreciable Capital Assets	<u>779,315</u>	<u>3,426,035</u>		<u>4,205,350</u>
Depreciable Capital Assets				
Land Improvements	95,559			95,559
Buildings and Building Improvements	4,422,269			4,422,269
Furniture, Fixtures, and Equipment	809,241	10,618	\$24,123	796,018
Vehicles	387,023	13,765		400,788
Books	335,832			335,832
Total Depreciable Capital Assets	<u>6,049,924</u>	<u>24,383</u>	<u>24,123</u>	<u>6,050,466</u>
Less Accumulated Depreciation				
Land Improvements	73,756	860		74,616
Buildings and Building Improvements	1,900,260	107,403		2,007,663
Furniture, Fixtures, and Equipment	597,888	30,415	22,194	606,109
Vehicles	305,431	8,041		313,472
Books	287,376	13,085		300,461
Total Accumulated Depreciation	<u>3,164,711</u>	<u>159,804</u>	<u>22,194</u>	<u>3,302,321</u>
Depreciable Capital Assets, Net	<u>2,885,213</u>	<u>(135,421)</u>	<u>1,929</u>	<u>2,747,863</u>
Governmental Activities Capital Assets, Net	<u>\$3,664,528</u>	<u>\$3,290,614</u>	<u>\$1,929</u>	<u>\$6,953,213</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$18,822
Special	388
Vocational	136
Support Services:	
Instructional Staff	26,012
Administration	1,590
Fiscal	57
Operation and Maintenance of Plant	8,260
Pupil Transportation	7,902
Non-Instructional Services	2,694
Extracurricular	1,130
Capital Outlay	92,813
Total Depreciation Expense	<u>\$159,804</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. RISK MANAGEMENT

A. Ohio School Plan

The District belongs to the Ohio School Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator's legal liability, automobile and violence coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan's paid liability loss ratio exceeds 65 percent and is less than 80 percent does the Plan contribute to paid claims. (See the Plan's audited financials statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

	<u>2006</u>	<u>2005</u>
Assets	\$1,730,236	\$952,191
Liabilities	941,026	\$213,419
Members' Equity	789,210	738,772

You can read the complete audited financial statements for The Ohio School Plan at the Plan's website, www.ohioschoolplan.org.

B. Employee Insurance Benefits Program

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. RISK MANAGEMENT – (Continued)

C. Workers' Compensation Group Rating Program

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

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

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$66,784, \$65,253, and \$63,224, respectively. The full amount has been contributed for fiscal years 2007, 2006, and 2005.

B. State Teachers Retirement System

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. DEFINED PENSION BENEFIT PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$331,037, \$314,272, and \$311,889, respectively; 85 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

12. POSTEMPLOYMENT BENEFITS

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. POSTEMPLOYMENT BENEFITS – (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$25,464 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006 (the latest information available), the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$27,830.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

13. COMPENSATED ABSENCES

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. COMPENSATED ABSENCES – (Continued)

At June 30, 2007, the current amount of unpaid compensated absences in all funds was \$55,367, and the long-term amount was \$211,281.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2007, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	<u>Balance at 06/30/06</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/07</u>	<u>Amount Due In one Year</u>
General Obligation Bonds Series 1998:					
Current Interest Bonds	\$270,000		\$85,000	\$185,000	\$90,000
Capital Appreciation Bonds	114,809	\$23,479		138,288	
Total G.O.B. Series 1998	<u>384,809</u>	<u>23,479</u>	<u>85,000</u>	<u>323,288</u>	<u>90,000</u>
School Improvement Refunding Bonds Series 2005:					
Current Interest Bonds	1,475,000			1,475,000	
Unamortized Premium	22,383		1,244	21,139	1,243
Total S. I. R. B. Series 2005	<u>1,497,383</u>		<u>1,244</u>	<u>1,496,139</u>	<u>1,243</u>
General Obligation Bonds Series 2006:					
Current Interest Bonds	4,795,000			4,795,000	110,000
Capital Appreciation Bonds	92,870	12,228		105,098	
Total G.O.B. Series 2006	<u>4,887,870</u>	<u>12,228</u>		<u>4,900,098</u>	<u>110,000</u>
Compensated Absences	282,903	211,281	282,903	211,281	
Total Long-Term Debt	<u>\$7,052,965</u>	<u>\$246,988</u>	<u>\$369,147</u>	<u>\$6,930,806</u>	<u>\$201,243</u>

General Obligation Bonds Series 1998

Proceeds from the outstanding bonds were used for the purpose of renovating, repairing, and improving existing school buildings and facilities, including improving access for the disabled, furnishing and equipping the same. These bonds were issued on February 19, 1998. The bonds consisted of \$2,380,000 in current interest bonds (\$800,000 issued as serial bonds and \$1,500,000 issued as term bonds) and \$24,708 in capital appreciation bonds.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	90,000	4.40%
2008	95,000	4.45%

A partial redemption was authorized for \$1,500,000 in term bonds and \$100,000 in current interest bonds.

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

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

The value of the capital appreciation bonds reported at June 30, 2007, was \$138,288. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$113,580 has been included in the value. The bonds are being retired through the Bond Retirement Fund.

School Improvement Refunding Bonds Series – 2005

Proceeds from the outstanding bonds were used for the purpose of refunding a portion of general obligation refunding bonds, dated March 1, 1998, which were issued for the purpose of school building construction and improvement bonds dated March 1, 1998. The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

The refunding bonds were issued on July 13, 2005. The bonds consisted of \$1,475,000 in current interest serial bonds.

This refunding was undertaken to reduce total debt service payments over the next 17 years by \$336,048 and resulted in an economic gain of \$227,151.

The refunding bonds outstanding are general obligations of the District for which full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source payment is derived from a current tax levy.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2010	\$100,000	4.00%
2014	100,000	4.00%
2015	100,000	4.00%
2016	100,000	4.00%
2017	115,000	4.50%
2018	120,000	4.50%
2019	125,000	4.50%
2020	130,000	4.50%
2021	135,000	4.50%
2022	140,000	4.50%
2023	150,000	4.50%
2024	160,000	4.50%

General Obligation Bonds 2006

Proceeds from the outstanding bonds were used to retire outstanding notes issued for the purpose of paying the local share of school construction under the Extreme Environmental Contamination Program; constructing a school building and related facilities; furnishing and equipping the same, improving the site thereof; and acquiring land and interests in land. These bonds were issued on March 24, 2006. The bonds consisted of \$4,795,000 in current interest bonds (\$845,000 issued as serial bonds and \$3,950,000 issued as term bonds) and \$90,000 in capital appreciation bonds.

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	\$110,000	3.75%
2008	110,000	3.75%
2009	115,000	3.75%
2010	120,000	3.75%
2011	125,000	3.75%
2012	130,000	4.00%
2013	135,000	4.00%

The current interest bonds maturing on or after December 1, 2016, are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any date on or after December 1, 2015, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

The term bonds which mature on December 1, 2019, have interest rates of 4 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the aggregate principal amounts as follows:

Year	Principal Amount to Be Redeemed
2016	\$140,000
2017	145,000
2018	150,000
2019	155,000

The term bonds which mature on December 1, 2021, have interest rates of 4.05 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the aggregate principal amounts as follows:

Year	Principal Amount to Be Redeemed
2020	\$165,000
2021	170,000

The term bonds which mature on December 1, 2025, have interest rates of 4.2 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

Year	Principal Amount to Be Redeemed
2022	\$175,000
2023	185,000
2024	195,000
2025	200,000

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

The term bonds which mature on December 1, 2034, have interest rates of 4.55 percent per year, and are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years in the respective principal amounts as follows:

Year	Principal Amount to Be Redeemed
2026	\$210,000
2027	220,000
2028	230,000
2029	240,000
2030	250,000
2031	260,000
2032	275,000
2033	285,000
2034	300,000

The capital appreciation bonds were issued in the aggregate original principal amount of 90,000 and mature on December 1 in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

Maturity Date	Original Principal Amount	Accreted Value at Maturity
2014	\$47,778	\$140,000
2015	42,222	140,000

The value of the capital appreciation bonds reported at June 30, 2007 was \$105,098. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$15,099 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

Total expenditures for interest for the above debt for the period ended June 30, 2007, was \$318,690.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2007, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$201,243	\$273,033	\$474,276
2009	206,244	264,814	471,058
2010	271,133	306,591	577,724
2011	166,813	309,506	476,319
2012	164,072	312,652	476,724
2013-2017	931,316	1,312,902	2,244,218
2018-2022	1,441,217	901,871	2,343,088
2023-2027	1,277,487	591,028	1,868,515
2028-2032	1,200,000	336,700	1,536,700
2033-2035	860,000	59,833	919,833
Total	<u>\$6,719,525</u>	<u>\$4,668,930</u>	<u>\$11,388,455</u>

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2006	(\$61,264)	
Current Year Set-aside Requirement	70,449	\$70,449
Current Year Offsets		(\$70,449)
Qualifying Disbursements	(97,463)	
Total	<u>(88,278)</u>	
Balance Carried Forward to FY 2008	<u>(\$88,278)</u>	

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts for capital acquisition are not presented as being carried forward to the next fiscal year.

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$420. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information, write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; and one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information, write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

17. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$577,893. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

17. GROUP PURCHASING POOLS – (Continued)

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$538 to the WCGRP to cover the costs of administering the program.

18. RELATED ORGANIZATION

Normal Memorial Library

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

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

19. INTERFUND ASSETS/LIABILITIES

The General Fund advanced \$42,397 to Other Nonmajor Governmental Funds. 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.

Fund	Receivable	Payable
General Fund	\$42,397	
Other Governmental Funds:		
Special Revenue Funds:		
Public School Preschool		\$9,777
Ohio Reads		5,690
Miscellaneous State		26,152
Drug Free Schools		778
Totals	\$42,397	\$42,397

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007, are reported on the statement of net assets.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

19. INTERFUND ASSETS/LIABILITIES – (Continued)

Also, the General Fund transferred \$15,230 to the Food Service fund. This transfer was made to move unrestricted balances to support the food service program which is accounted for in a separate fund.

20. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

B. Litigation

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

21. CONTRACTUAL COMMITMENTS

As of June 30, 2007, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
Barton Malow/Rupp Rosenbrock	\$566,399
Buehrer Group	218,316
L R Babcock	1,760,286
Mel Lanzer Company	520,196
Mosser Construction	6,761,339
Shambaugh & Sons	269,257
W E Olson Electric	12,172
Woolace Electric	1,646,400
Totals	<u>\$11,745,365</u>

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Mary Taylor, CPA

Auditor of State

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

Gorham Fayette Local School District
Fulton County
311 North Eagle Street, PO Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District, Fulton County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-001 is also a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated February 5, 2008.

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*.

We did note certain noncompliance matters that we reported to the District's management in a separate letter dated February 5, 2008.

We intend this report solely for the information and use of the audit committee, management and Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 5, 2008

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

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

FINDING NUMBER 2007-001

Material Weaknesses

Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments:

1. The intergovernmental receivable relating to the Ohio School Facilities Commission's (OSFC) share of the District's construction project was understated by \$862,849. This error affected in the Classroom Facilities Fund.
2. Capital Assets relating to construction in progress were understated by \$235,012.
3. A legal settlement in the amount of \$3,900,000 received in 2007 was classified as miscellaneous revenues on the statement of activities. Since these revenues are infrequent and somewhat controlled by the District, they should have been disclosed as a special item.
4. Net assets invested in capital assets, net of related debt, was understated by \$1,334,108. This was due to unspent bond proceeds toward the District's construction project.
5. Revenues received from the OSFC for construction manager costs in the amount of \$220,414 were mapped as program revenue to the capital outlay activity instead of regular instruction which is the primary use of the facility.
6. Severance payments were made using current available resources in the amount of \$55,367. These amounts should have been disclosed as matured compensated absences payable instead of long term obligations due within one year.

Sound financial reporting is the responsibility of the fiscal officer and the governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the District's financial statements and notes to the statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and the audit committee, to identify and correct errors and omissions. The Treasurer should also review the Uniform School Accounting System's chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Officials Response:

Management did not respond to this finding.

FINDING NUMBER 2007-002

Significant Deficiency

Sales Project Potential Forms

Sales Project Potential Forms were not completed for sixty percent of the fund raisers conducted in 2007. To help insure that class/project fundraiser revenue is properly accounted for and the full amount of profit for the fundraiser is realized by the class or organization, we recommend a Sales Project Potential Form be completed for each project by the project advisor to summarize the financial activity of the project. The form should initially be submitted for approval of the fundraiser by the appropriate personnel. Once the project is approved and completed, it should be sent to the appropriate personnel for final approval. Once approved, the form should be submitted to the Treasurer. The Treasurer should reconcile the financial activity indicated on the form with the financial activity posted for the fundraiser on the District books.

Officials Response:

Management did not respond to this finding.



Mary Taylor, CPA
Auditor of State

GORHAM FAYETTE LOCAL SCHOOL DISTRICT

FULTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**