

**GRAHAM LOCAL SCHOOL DISTRICT**

**Basic Financial Statements**

**June 30, 2005**

**with**

**Independent Auditors' Report**





**Auditor of State  
Betty Montgomery**

Board of Education  
Graham Local School District  
St. Paris, Ohio

We have reviewed the *Independent Auditor's Report* of the Graham Local School District, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

March 22, 2006

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# GRAHAM LOCAL SCHOOL DISTRICT

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 44 through 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
December 30, 2005

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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The discussion and analysis of the Graham Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

*Overall:*

- Total net assets increased \$199,334, which represents a 1.60% increase from fiscal year 2004.
- Total assets of governmental activities increased by \$13,843,954, attributed almost exclusively to the recording of proceeds from the sale of notes in the amount of \$13,575,000.
- General revenues accounted for \$15.8 million or 87.25% of total revenue. Program specific revenues in the form of charges for services and operating grants and contributions account for \$2.3 million or 12.75% of total revenues of \$18.1 million.
- Of the School District's \$17.9 million in expenses, only \$2.3 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$15.6 million.
- The General Fund had \$15.2 million in revenues and \$15.0 million in expenditures representing 84.08% and 84.83% of the total governmental funds revenues and expenditures, respectively. The Building Construction Project Fund is a new fund for fiscal year 2005 and is used to account for note proceeds for the construction of a new elementary school.

**Using the Basic Financial Statements**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregated view of the School District's finances and a longer-term view of those statements. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Graham Local School District, the General Fund and Building Construction Project Fund are the most significant funds.



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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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Reporting the School District as a Whole

***B. Statement of Net Assets and the Statement of Activities***

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

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

***C. Fund Financial Statements***

The analysis of the School District's General Fund and Building Construction Project Fund begins on page 13. Fund financial reports provide detailed information about the General Fund and the Building Construction Project Fund. The School District uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the School District's most significant funds, and therefore only the General Fund and the Building Construction Fund are presented separate from the other governmental funds.

***Governmental Funds***

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

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

The School District as a Whole

Table 1 provides a summary of the School District's net assets at June 30, 2005 as compared to June 30, 2004:

**TABLE 1  
NET ASSETS, JUNE 30**

	2005	2004
<b>ASSETS:</b>		
Current and Other Assets	\$ 24,182,803	9,824,665
Capital Assets	17,245,296	17,759,480
Total Assets	41,428,099	27,584,145
 <b>LIABILITIES</b>		
Current Liabilities	20,977,924	7,293,365
Noncurrent Liabilities	7,764,773	7,804,712
Total Liabilities	28,742,697	15,098,077
 <b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Debt	11,055,584	11,307,161
Restricted	2,767,625	2,396,407
Unrestricted	(1,137,807)	(1,217,500)
Total Net Assets	\$ 12,685,402	12,486,068

The amount by which the School District's assets exceeded its liabilities is called net assets. As of June 30, 2005, the School District's net assets were \$12.7 million. Of that amount, approximately \$11.1 million was invested in capital assets, net of debt related to those assets. Another \$2.8 million was subject to external restrictions upon its use.

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

*Management's Discussion and Analysis  
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Table 2 shows the changes in net assets for fiscal year ended June 30, 2005 as compared to June 30, 2004.

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

	2005	2004
<b>REVENUES:</b>		
Program Revenues:		
Charges for Services	\$ 1,397,103	1,375,244
Operating Grants and Contributions	910,604	817,489
General Revenues:		
Property Taxes	6,053,340	5,420,734
Grants and Entitlements	9,469,885	9,391,459
Investment Earnings	102,872	47,837
Other	159,269	163,364
Total Revenues	18,093,073	17,216,127
 <b>PROGRAM EXPENSES:</b>		
Instruction	9,874,092	10,343,171
Support Services:		
Pupils and Instructional Staff	2,094,749	2,000,777
Board of Education, Administration		
Fiscal and Business	1,719,159	1,645,571
Operation and Maintenance of Plant	1,301,732	1,310,020
Pupil Transportation	1,231,625	1,140,294
Central	96,237	73,269
Operation of Non-Instructional Services	657,603	651,499
Extracurricular Activities	582,260	432,496
Interest and Fiscal Charges	336,282	328,341
Total Expenses	17,893,739	17,925,438
Change in Net Assets	\$ 199,334	(709,311)

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. Property taxes made up 33.46% percent of revenues for governmental activities for the Graham Local School District for fiscal year 2005. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 57.37% of the School District's total revenue was received from intergovernmental sources during fiscal year 2005.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
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Despite not having sought new operating funds through a property tax levy in the past several years, the School District has been able to regain stable financial footing after struggling through financial difficulties in the late 1990's. Through careful management of expenses, the School District has been able to maintain a stable fund balance. However, if additional revenue sources are not secured, the School District will have to implement spending reductions in order to avoid depleting cash reserves.

Instruction comprises 55.18% of the School District's expenses for fiscal year 2005. Support services expenses make up 36.01% of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**TABLE 3  
TOTAL AND COST OF PROGRAM SERVICES  
FOR THE FISCAL YEAR ENDED JUNE 30,**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 9,874,092	8,623,649	10,343,171	9,151,045
Support Services:				
Pupils and Instructional Staff	2,094,749	1,849,365	2,000,777	1,748,615
Board of Education, Administration, Fiscal and Business	1,719,159	1,708,435	1,645,571	1,645,027
Operation and Maintenance of Plant	1,301,732	1,289,175	1,310,020	1,300,905
Pupil Transportation	1,231,625	1,224,268	1,140,294	1,139,393
Central	96,237	89,514	73,269	65,242
Operation of Non-Instructional Services	657,603	47,599	651,499	52,414
Extracurricular Activities	582,260	417,745	432,496	301,743
Interest and Fiscal Charges	336,282	336,282	328,341	328,341
<b>Total Expenses</b>	<b>\$ 17,893,739</b>	<b>15,586,032</b>	<b>17,925,438</b>	<b>15,732,725</b>

Instructional expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting the staff with the contents and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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Plant operation and maintenance activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, as well as services provided to the community at-large.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transaction associated with the payment of interest and other related charges to debt of the School District.

The School District's Funds

Information about the School District's major funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18.0 million and expenditures of \$17.7 million. Total fund balance went from \$ 2.4 million in 2004 to \$3.1 million in 2005.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005, the School District amended its general fund budget three times.

For the General Fund, budget basis revenue was \$14.8 million as compared to the original budget estimates of \$15.5 million. This difference was primarily a result of intergovernmental revenues originally budgeted at \$10.0 million and actual amounts received were \$9.4.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$15.2 million, \$0.5 million over revenues, as well as \$0.9 million below final budget estimates.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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Capital Assets

At the end of fiscal year 2005, the School District had \$17.25 million invested in land, buildings, furniture and equipment, and vehicles in governmental activities.

Table 4 shows fiscal year 2005 balances compared to 2004:

**TABLE 4  
CAPITAL ASSETS, JUNE 30**

	<u>2005</u>	<u>2004</u>
Land	\$ 348,941	348,941
Construction in Progress	37,415	-
Buildings	19,016,914	19,010,354
Improvements	2,056,277	2,022,659
Furniture and Equipment	3,003,685	2,874,350
Vehicles	1,744,022	1,744,022
Less: Accumulated Depreciation	<u>(8,961,958)</u>	<u>(8,240,846)</u>
	\$ <u>17,245,296</u>	<u>17,759,480</u>

Overall capital assets decreased approximately \$514,000 from fiscal year 2004. This decrease was attributable to the recognition of depreciation expense in the amount of \$722,302 offset by capital asset acquisitions in the amount of \$208,119.

For fiscal year 2000 and forward, Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional supplies. For fiscal year 2005, this amount was \$307,266 for each set aside requirement. The School District had qualifying disbursements in the amount of \$249,725 for capital improvements and \$277,408 in textbooks to offset these requirements. In addition, the School District carried forward a deficit of \$67,685 for textbooks to meet the required disbursements for fiscal year 2006 and reported an excess of \$57,541 for capital improvements which is reported as restricted cash and cash equivalents on the financial statements.

Debt Administration

At June 30, 2005, the School District had two general obligation bonds outstanding with principal due of \$6,152,297, of which \$305,000 is due within one year. The original principal of the bond was \$7,735,000 in voted general obligation bonds for construction, improvement, and renovation of school facilities. The bond issue included serial, term, and capital appreciation bonds in the amount of \$3,840,000, \$3,660,000, and \$235,000, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2021. Additional debt issues include a loan for asbestos removal with a balance due at June 30, 2005 of \$34,532, of which \$7,149 is due within one year and a capital lease for building improvements with a balance of \$382,000, of which \$19,000 is due within one year.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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During the fiscal year, the School District issued \$13,575,000 of notes in anticipation of issuing bonds for the construction of a new elementary school.

At June 30, 2005, the School District's overall legal debt margin was \$14,840,580 and the unvoted debt margin was \$219,007.

For more detailed information regarding the School District's debt obligations, the reader should refer to the notes to the basic financial statements.

For the Future

Graham Local School District continues to struggle with the reduction in operating revenue provided by the State of Ohio. Recent legislative decisions continue to reduce operating funds through the planned phase out of the inventory tax base and reduced foundation subsidy payments. It is anticipated the realized state funding for fiscal year 2006 will be approximately 1% increase over the previous year. These factors coupled with increasing operating costs will continue to put a financial strain on the School District.

The School District only had one emergency levy and two permanent improvement levies. The emergency levy was allowed to expire at the end of calendar year 2004 when it was discovered that the State funding formula will make these funds up through GAP Aid. Both permanent improvement levies have been renewed for an additional five years. The bond issue for a new elementary school was passed in May of 2005. This is part of the Ohio School Facilities Expedited Local Partnership Plan. This bond issue will qualify the School District for state funding when it becomes available in the next 5 to 6 years.

The state lawsuit has benefited the School District in increased state per pupil amount. This by itself would have left the School District in financial need but the formula has included Gap Aid and Excess Categorical Aid, which has allowed the School District to operate modestly without additional local levies. Unfortunately, Gap Aid has created a dependent situation where the School District will lose Gap Aid if we get additional local tax funding.

The lawsuit has failed to get the state to move away from dependence on property tax and the new formulas make funding very complex and difficult to explain to the public.

Graham has initiated its own community school to compete with the for profit community schools. This has helped lessen the blow of lost funding to these schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Graham Local School District, 370 East Main Street, St. Paris, Ohio 43072 or call (937) 663-4123.

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

*Statement of Net Assets  
June 30, 2005*

	Primary Government	Component Unit
	Governmental Activities	Graham Digital Academy
<b>ASSETS:</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 9,726,047	119,098
Cash and Cash Equivalents with Fiscal Agent	336,735	-
Investments	7,695,883	-
Receivables:		
Taxes	6,326,270	-
Accounts	9,618	-
Intergovernmental	15,180	-
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	57,541	-
Materials and Supplies Inventory	15,529	-
Capital assets not subject to depreciation	386,356	-
Capital assets, net of accumulated depreciation	<u>16,858,940</u>	<u>76,578</u>
 Total Assets	 <u>41,428,099</u>	 <u>195,676</u>
<b>LIABILITIES:</b>		
Accounts Payable	191,012	-
Accrued Wages and Benefits	1,411,270	-
Compensated Absences	85,922	-
Intergovernmental Payable	472,055	5,056
Accrued Interest Payable	13,575	-
Unearned Revenue	5,229,090	-
Notes Payable	13,575,000	-
Noncurrent Liabilities:		
Due Within One Year	417,071	-
Due In More Than One Year	<u>7,347,702</u>	<u>-</u>
 Total Liabilities	 <u>28,742,697</u>	 <u>5,056</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	11,055,584	76,578
Restricted for:		
Special Revenue	313,446	-
Debt Service	1,426,153	-
Capital Projects	1,028,026	-
Unrestricted	<u>(1,137,807)</u>	<u>114,042</u>
 Total Net Assets	 <u>\$ 12,685,402</u>	 <u>190,620</u>

See accompanying notes to the basic financial statements.



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

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2005*

<b>Functions/Programs:</b>	Primary Government			Net (Expense) Revenue and Changes in Net Assets	Component Unit
	Expenses	Program Revenues		Governmental Activities	Graham Digital Academy
		Charges for Services	Operating Grants and Contributions		
Primary Government:					
Governmental Activities:					
Instruction:					
Regular	\$ 7,095,382	577,566	89,269	(6,428,547)	-
Special	1,902,129	-	583,477	(1,318,652)	-
Vocational	-	-	131	131	-
Other	876,581	-	-	(876,581)	-
Support Services:					
Pupils	941,893	198,882	8,971	(734,040)	-
Instructional Staff	1,152,856	-	37,531	(1,115,325)	-
Board of Education	39,784	-	-	(39,784)	-
Administration	1,274,152	-	10,267	(1,263,885)	-
Fiscal	389,690	-	-	(389,690)	-
Business	15,533	-	457	(15,076)	-
Operation and Maintenance of Plant	1,301,732	-	12,557	(1,289,175)	-
Pupil Transportation	1,231,625	-	7,357	(1,224,268)	-
Central	96,237	-	6,723	(89,514)	-
Operation of Non-Instructional Services	657,603	456,140	153,864	(47,599)	-
Extracurricular Activities	582,260	164,515	-	(417,745)	-
Interest and Fiscal Charges	336,282	-	-	(336,282)	-
Total Primary Government	<u>17,893,739</u>	<u>1,397,103</u>	<u>910,604</u>	<u>(15,586,032)</u>	<u>-</u>
Component Unit:					
Graham Digital Academy	\$ <u>401,415</u>	<u>-</u>	<u>526,800</u>	<u>-</u>	<u>125,385</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes				5,012,098	-
Special Purposes				101,333	-
Debt Service				613,689	-
Capital Outlay				326,220	-
Grants, Entitlements and Contributions not Restricted to Specific Programs				9,469,885	-
Investment Earnings				102,872	694
Other Revenue				159,269	70
Total General Revenues				<u>15,785,366</u>	<u>764</u>
Change in Net Assets				199,334	126,149
Net Assets, Beginning of Year				<u>12,486,068</u>	<u>64,471</u>
Net Assets, End of Year				\$ <u>12,685,402</u>	<u>190,620</u>

See accompanying notes to the basic financial statements.

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

*Balance Sheet  
Governmental Funds  
June 30, 2005*

	General Fund	Building Construction Project Fund	Nonmajor Governmental Funds
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 946,134	5,888,871	2,891,042
Cash and Cash Equivalents with Fiscal Agent	-	-	336,735
Investments	-	7,695,883	-
Receivables:			
Taxes	4,835,608	-	1,490,662
Accounts	9,552	-	66
Intergovernmental	-	-	15,180
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	57,541	-	-
Materials and Supplies Inventory	-	-	15,529
	<u>5,848,835</u>	<u>13,584,754</u>	<u>4,749,214</u>
Total Assets	\$		
<b>LIABILITIES:</b>			
Accounts Payable	\$ 55,459	-	135,553
Accrued Wages and Benefits	1,331,600	-	79,670
Intergovernmental Payable	309,783	-	31,707
Compensated Absences Payable	83,753	-	2,169
Notes Payable	-	13,575,000	-
Unearned Revenue	4,167,848	-	1,359,812
	<u>5,948,443</u>	<u>13,575,000</u>	<u>1,608,911</u>
Total Liabilities			
<b>FUND BALANCES:</b>			
Reserved for:			
Encumbrances	149,172	-	411,064
Property Taxes	667,760	-	145,540
Capital Improvements	57,541	-	-
Unreserved, Undesignated:			
General Fund	(974,081)	-	-
Special Revenue Funds	-	-	432,117
Debt Service Fund	-	-	1,280,746
Capital Projects Funds	-	9,754	870,836
	<u>(99,608)</u>	<u>9,754</u>	<u>3,140,303</u>
Total Fund Balances			
Total Liabilities and Fund Balances	\$	<u>5,848,835</u>	<u>13,584,754</u>
		<u>13,584,754</u>	<u>4,749,214</u>

See accompanying notes to the basic financial statements.

*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2005*

	<hr/>		
Total Governmental Funds		Total Governmental Fund Balances	\$ 3,050,449
9,726,047		Amounts reported for governmental are different because:	
336,735			
7,695,883			
6,326,270		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,245,296
9,618			
15,180			
57,541			
15,529		Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	298,570
<u>24,182,803</u>			
191,012		Long-term liabilities, which are not due and payable in the current period and therefore are not reported in the funds	
1,411,270		Compensated Absences	(1,195,944)
341,490		Intergovernmental Payable	(130,565)
85,922		Accrued Interest Payable	(13,575)
13,575,000		Asbestos Loan Payable	(34,532)
5,527,660		Capital Leases Payable	(382,000)
<u>21,132,354</u>		General Obligations Bonds Payable	<u>(6,152,297)</u>
560,236		Net Assets of Governmental Activities	\$ <u>12,685,402</u>
813,300			
57,541			
(974,081)			
432,117			
1,280,746			
880,590			
<u>3,050,449</u>			
<u>24,182,803</u>			

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
*Statement of Revenues, Expenditures and*  
*Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General Fund	Building Construction Project Fund	Nonmajor Governmental Funds
<b>REVENUES:</b>			
Taxes	\$ 4,957,758	-	1,024,792
Intergovernmental	9,382,009	-	998,481
Investment Earnings	88,337	9,754	4,781
Tuition and Fees	577,566	-	-
Charges for Services	-	-	456,139
Extracurricular Activities	-	-	363,397
Miscellaneous	147,216	-	12,053
Total Revenues	<u>15,152,886</u>	<u>9,754</u>	<u>2,859,643</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	6,568,001	-	96,438
Special	1,309,000	-	595,587
Other	921,226	-	-
Support Services:			
Pupils	712,853	-	225,721
Instructional Staff	1,123,896	-	42,519
Board of Education	39,784	-	-
Administration	1,237,566	-	8,601
Fiscal	364,831	-	23,712
Business	15,383	-	-
Operation and Maintenance of Plant	1,239,436	-	41,990
Pupil Transportation	1,127,674	-	2,695
Central	86,491	-	9,746
Operation of Non-Instructional Services	-	-	665,495
Extracurricular Activities	282,665	-	167,689
Capital Outlay	-	-	222,526
Debt Service:			
Principal	-	-	302,149
Interest	3,585	-	282,463
Total Expenditures	<u>15,032,391</u>	<u>-</u>	<u>2,687,331</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>120,495</u>	<u>9,754</u>	<u>172,312</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Inception of Capital Lease	-	-	382,000
Transfers In (Out)	(983)	-	983
Total Other Financing Sources (Uses)	<u>(983)</u>	<u>-</u>	<u>382,983</u>
Net Change in Fund Balances	119,512	9,754	555,295
Fund Balance, Beginning of Year	(219,120)	-	2,585,008
Fund Balance, End of Year	\$ <u>(99,608)</u>	<u>9,754</u>	<u>3,140,303</u>

See accompanying notes to the basic financial statements.

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

<p>Total Governmental Funds</p> <hr/> <p>5,982,550 10,380,490 102,872 577,566 456,139 363,397 <u>159,269</u></p> <p>18,022,283</p> <hr/> <p>6,664,439 1,904,587 921,226</p> <p>938,574 1,166,415 39,784 1,246,167 388,543 15,383 1,281,426 1,130,369 96,237 665,495 450,354 222,526</p> <p>302,149 <u>286,048</u></p> <p>17,719,722</p> <hr/> <p>302,561</p> <hr/> <p>382,000 -</p> <hr/> <p>382,000</p> <p>684,561</p> <hr/> <p>2,365,888</p> <hr/> <p>3,050,449</p> <hr/>	<p>Total Net Change in Fund Balances - Total Governmental Funds      \$      684,561</p> <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p> <p style="padding-left: 40px;">Capital Asset Additions      208,118</p> <p style="padding-left: 40px;">Current Year Depreciation      (722,302)</p> <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.      70,790</p> <p>The inception of a capital lease is an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.      (382,000)</p> <p>Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.      302,149</p> <p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payables which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <p style="padding-left: 40px;">Compensated Absences      86,534</p> <p style="padding-left: 40px;">Intergovernmental Payable      1,718</p> <p style="padding-left: 40px;">Accrued Interest on Capital Appreciation Bonds      (36,659)</p> <p style="padding-left: 40px;">Accrued Interest Payable      (13,575)</p> <p>Change in Net Assets of Governmental Activities      \$      <u>199,334</u></p>
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**GRAHAM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY, OHIO**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2005*

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	Scholarship Private- Purpose Trust Funds	Agency Fund
<b>ASSETS:</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 126,814	50,130
Receivables:		
Notes	<u>28,000</u>	<u>-</u>
Total Assets	\$ <u>154,814</u>	<u>50,130</u>
<b>LIABILITIES:</b>		
Accounts Payable	\$ -	30
Due to Students	<u>-</u>	<u>50,100</u>
Total Liabilities	<u>-</u>	<u>50,130</u>
<b>NET ASSETS:</b>		
Held in Trust for Scholarships	\$ <u>154,814</u>	

See accompanying notes to the basic financial statements.

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2005*

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	Scholarship Private- Purpose Trust Funds
<b>ADDITIONS:</b>	
Investment Earnings	\$ 2,139
Miscellaneous	<u>1,839</u>
Total Additions	<u>3,978</u>
 <b>DEDUCTIONS:</b>	
Educational Outreach	<u>14,500</u>
Total Deductions	<u>14,500</u>
Change in Net Assets	(10,522)
Net Assets, Beginning of Year	<u>165,336</u>
Net Assets, End of Year	\$ <u><u>154,814</u></u>

See accompanying notes to the basic financial statements.

## GRAHAM LOCAL SCHOOL DISTRICT

### CHAMPAIGN COUNTY, OHIO

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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#### **NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1955 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 189 square miles. It is located in Champaign and Shelby Counties, and includes all of the Villages of Christiansburg, Rosewood, and St. Paris, and portions of Adams, Concord, Harrison, Jackson, Johnson, and Mad River Townships. The School District is staffed by 95 classified employees, 147 certified teaching personnel, and 9 administrative employees who provide services to 2,200 students and other community members. The School District currently operates 5 instructional buildings and an administration building.

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

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

The component unit column on the government-wide financial statements identifies the financial data of the School District's discretely presented component unit, Graham Digital Academy. It is reported separately to emphasize that it is legally separate from the School District.

**Graham Digital Academy:** Graham Digital Academy (Academy) is a legally separate not-for-profit organization served by an appointed six-member Board of Directors (Board). The Academy was approved for operation under contract with the School District for a period of five years commencing July 1, 2002. The Academy began operations on March 11, 2004. The School District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under the direction of a six-member Board appointed by the School District. The Board consists of four members who hold administrative positions with the School District, one public educator or public official not employed by the School District, and one individual representing the interest of parents and students. The Board consists of five voting members and one non-voting member, who is the Treasurer. The Board is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.



**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)**

Therefore, the Academy is reflected as a component unit of Graham Local School District. The Academy operates on a fiscal year ending June 30. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or by calling (937) 663-4123.

The School District is associated with five jointly governed organizations, an insurance purchasing pool and a related organization. These organizations are presented in Notes 16, 17 and 18 to the basic financial statements. These organizations are:

**Jointly Governed Organizations:**

Ohio Hi-Point Joint Vocational School

Western Ohio Computer Organization

West Central Ohio Special Education Regional Resource Center

Southwestern Ohio Education Purchasing Council

Southwestern Ohio Instructional Technology Association

**Insurance Purchasing Pool:**

Ohio School Boards Association Workers' Compensation Group Rating Plan

**Related Organization:**

St. Paris Public Library

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***A. Basis of Presentation***

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

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

***B. Fund Accounting***

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

Governmental Funds

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

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

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has various funds established to provide scholarships to its students that are classified as private-purpose trust funds. Funds used to account for the activity of the numerous student-managed activities within the School District are classified as agency funds.

***C. Measurement Focus***

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

***D. Basis of Accounting***

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

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

***E. Budget Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board has established the legal level of control at the fund/object level for the General Fund and the fund level for all other funds.

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue, are identified by the School District. The amounts reported as the original budgeted amounts in the budgetary schedule in the required supplementary information reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary schedule in the required supplementary information reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

***F. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2005, investments included were limited to non-negotiable certificates of deposits, government securities and STAROhio.

Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The School District has invested funds in the State Treasury Assets Reserve of Ohio (STAROhio) during fiscal year 2005. STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2005.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year was \$88,337, which included \$65,759 assigned from other School District funds. Interest was also recorded in the Building Construction Fund and Other Governmental funds in the amount of \$9,754 and \$4,781, respectively. The private-purpose scholarship fund recorded interest of \$2,139.

***G. Materials and Supplies Inventory***

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

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, and purchased food. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed. At June 30, 2005, the School District had no prepaid items.

***I. Restricted Assets***

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by State statute to be set aside to create a reserve for capital acquisition. See Note 22 for the year-end restricted asset balance and the corresponding fund balance reserves.

***J. Estimates***

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

***K. Capital Assets and Depreciation***

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

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

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

Description	Estimated Lives
Buildings	50 years
Furniture and Equipment	5 – 20 years
Vehicles	10 years

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***L. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures or expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources and uses in governmental funds. Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statement.

***M. Compensated Absences***

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that represents severance payments to individuals who retired prior to the end of the fiscal year, but did not receive payment until after year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reflected in the fund statements.

***N. Accrued Liabilities and Long-Term Obligations***

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

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

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***O. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

***P. Fund Balance Reserves***

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

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

**NOTE 3 – ACCOUNTABILITY**

The following funds have fund equity deficits as of June 30, 2005:

	Deficit <u>Fund Equity</u>
General Fund	\$ <u>99,608</u>
Special Revenue Funds:	
Reducing Class Size	\$ 3,345
Title I	\$ 19,529
Title VI-B	\$ 67

The deficits in the general fund and special revenue funds resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2006. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. The School District will examine the need to increase its charges for services to the other funds or the general fund will provide operation transfers to eliminate the deficits.



**GRAHAM LOCAL SCHOOL DISTRICT**

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**NOTE 4 – DEPOSITS AND INVESTMENTS**

State statutes require the classification of monies held by the School District into three categories.

Active Monies – Those monies required to be kept in a “cash” or “near-cash” status for the immediate use of the School District. Such monies must be maintained either as cash in the treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested as certificate of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested in legal securities (see Note 2F).

Deposits

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

At year end, the carrying amount of the School District’s deposits was \$9,764,165 and the bank balance was \$9,937,222. Of the bank balance, \$341,694 was covered by federal depository insurance and the remaining amounts were collateralized with securities held by the pledging financial institution’s agent but not in the School District’s name. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**GRAHAM LOCAL SCHOOL DISTRICT**  
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**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	<u>Fair</u> <u>Value</u>	<u>Percent</u> <u>of Total</u> <u>Portfolio</u>	<u>Credit</u> <u>Rating (1)</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u>
Federal Home Loan Bank	\$ 247,813	3.01%	AAA	0.15 years
Federal Home Loan Bank Discount Notes	1,500,147	18.23%	AAA	0.07 years
Fannie Mae Discount Notes	2,112,760	25.67%	AAA	0.03 years
Federal Home Loan Mortgage Corp.	98,563	1.20%	AAA	0.02 years
Federal Home Loan Mortgage Corp. - Discount Notes	3,736,600	45.41%	AAA	0.77 years
STAR Ohio	<u>533,102</u>	<u>6.48%</u>	AAAm	N/A
 Total Investments	 \$ <u>8,228,985</u>	 <u>100.00%</u>		

Portfolio Weighted Average Maturity 1.04 years

(1) - as rated by Standard & Poors

The School District's investment policy permits the purchase of any security specifically authorized by the Ohio Revised Code and includes the following:

Interest Rate Risk – The School District shall not purchase any security that has a remaining term to final maturity of more than five years.

Concentration of Credit Risk – The School District should normally seek to diversify its holdings of other investments by avoiding concentrations of specific issuers.

**Component Unit:** At fiscal year end, the carrying amount of the Academy's deposits was \$119,098, and the bank balance was \$119,098. The entire bank balance was covered by federal depository except for \$19,098. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

**NOTE 5 – PROPERTY TAXES**

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

**GRAHAM LOCAL SCHOOL DISTRICT**

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For the Fiscal Year Ended June 30, 2005*

**NOTE 5 – PROPERTY TAXES (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax payments received during calendar 2005 for tangible personal property (other than public utility property) is for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005, and are collected in 2005 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

	<u>2005 First Half Collections</u>		<u>2004 Second Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 185,257,550	84.59%	178,480,160	81.65%
Public Utility	7,704,030	3.52%	7,899,950	3.69%
Tangible Personal Property	<u>26,045,851</u>	<u>11.89%</u>	<u>29,336,898</u>	<u>14.66%</u>
Total Assessed Value	<u>\$ 219,007,431</u>	<u>100.00%</u>	<u>215,717,008</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$31.85</u>		<u>\$34.45</u>	

The School District receives property taxes from Champaign and Shelby Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**GRAHAM LOCAL SCHOOL DISTRICT**

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**NOTE 5 – PROPERTY TAXES (Continued)**

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance was recognized as revenue. On the Statement of Activities, the delinquent taxes that were levied in previous years are recognized as revenue.

The amount available as an advance at June 30, 2005, was \$667,760, \$27,518, \$78,992 and \$39,030 in the General, Classroom Facilities Maintenance, Debt Service, and Permanent Improvement funds, respectively.

**NOTE 6 – RECEIVABLES**

Receivables at June 30, 2005, consisted of current and delinquent property taxes, accounts (rent and student fees), intergovernmental grants. 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 fiscal year guarantee of federal funds. At June 30, 2005, the only intergovernmental receivables recorded consisted of \$15,180 due from the State of Ohio due to the Summer Intervention Fund.

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the Graham Local School District for the fiscal year ended June 30, 2005, is as follows:

	<u>Balance,</u> <u>6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance,</u> <u>6/30/2005</u>
<b><u>Capital Assets, not being depreciated</u></b>				
Land	\$ 348,941	-	-	348,941
Construction in Progress	-	37,415	-	37,415
	<u>348,941</u>	<u>37,415</u>	<u>-</u>	<u>386,356</u>
<b><u>Capital Assets, being depreciated</u></b>				
Buildings	19,010,354	6,560	-	19,016,914
Improvements	2,022,659	33,618	-	2,056,277
Furniture and Equipment	2,874,350	130,525	(1,191)	3,003,684
Vehicles	1,744,022	-	-	1,744,022
	<u>25,651,385</u>	<u>170,703</u>	<u>(1,191)</u>	<u>25,820,897</u>

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

**NOTE 7 – CAPITAL ASSETS (Continued)**

	Balance, 6/30/2004	Additions	Deductions	Balance, 6/30/2005
<b><u>Less: Accumulated Depreciation</u></b>				
Buildings	(3,796,355)	(364,842)	-	(4,161,197)
Improvements	(1,858,813)	(60,733)	-	(1,919,546)
Furniture and Equipment	(1,407,486)	(189,285)	1,191	(1,595,580)
Vehicles	(1,178,192)	(107,442)	-	(1,285,634)
	<u>(8,240,846)</u>	<u>(722,302) *</u>	<u>1,191</u>	<u>(8,961,957)</u>
<b>Capital Assets, being depreciated, net</b>	<u>17,410,539</u>	<u>(551,599)</u>	<u>-</u>	<u>16,858,940</u>
<b>Capital Assets, net</b>	\$ <u>17,759,480</u>	<u>(514,184)</u>	<u>-</u>	<u>17,245,296</u>

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

Instruction:		
Regular	\$ 558,897	
Special	2,367	
Vocational	4,802	
Support Services:		
Pupils	3,220	
Instructional Staff	13,115	
Administration	2,165	
Fiscal	1,421	
Business	150	
Operation and Maintenance of Plant	18,092	
Pupil Transportation	104,976	
Operation of Non-Instructional Services	8,918	
Extracurricular Activities	4,179	
	<u>\$ 722,302</u>	

Capital asset activity for the Graham Digital Academy for the fiscal year ended June 30, 2005, is as follows:

	Balance 06/30/04	Additions	Reductions	Balance 06/30/05
<b><u>Capital Assets, being depreciated:</u></b>				
Office Equipment and Computer	\$ 15,675	82,737	(5,375)	93,037
Less: Accumulated Depreciation	<u>(2,009)</u>	<u>(16,070)</u>	<u>1,620</u>	<u>(16,459)</u>
<b>Capital Assets, net</b>	\$ <u>13,666</u>	<u>66,667</u>	<u>(3,755)</u>	<u>76,578</u>

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements  
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**NOTE 8 – NOTES RECEIVABLE**

The Brecount Scholarship Expendable Trust Fund was established in 1977 through a probated will. Qualified students can borrow funds to pay for the costs of higher education. The loans are interest free. Repayments begin upon obtaining employment and must be paid within ten years. At June 30, 2005, the balances of the outstanding loans were \$28,000.

**NOTE 9 – RISK MANAGEMENT**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Marsh Insurance and the Southwestern Ohio Educational Purchasing Council for the following insurance coverage:

Marsh Insurance:	
Property Damage (\$2,500 deductible)	\$ 50,000,000
Musical Instruments	353,646
Mobile Equipment	324,997
Electronic and Data Processing Equipment, including software, Media, and extra expenses	632,246
Southwestern Ohio Educational Purchasing Council (EDP):	
Automobile Liability	1,000,000
Uninsured Motorists Bodily Injury – Per Accident	1,000,000
Medical Payments per Person	5,000
General Liability – Per Occurrence	1,000,000

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

***B. Workers' Compensation***

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$274,882, \$172,768 and \$146,101 respectively, equal to the required contributions for each year.

***B. State Teachers Retirement System***

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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.

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,042,931, \$968,502, and \$853,832 respectively, equal to required contributions for each year.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected social security. The School District's liability is 6.2 percent of wages paid.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$74,495 during the 2005 fiscal year. The balance in the Health Care Reserve Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

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



**GRAHAM LOCAL SCHOOL DISTRICT**

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**NOTE 11 – POSTEMPLOYMENT BENEFITS (Continued)**

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, 2005, the allocation rate is 4.91 percent. 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 2005, the minimum pay has been established at \$27,400. 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. For the School District, the amount to fund health care benefits, including the surcharge, was \$144,610.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net healthcare costs at June 30, 2005 were \$178,221,113. At June 30, 2005, the Retirement System’s net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 58,123.

**NOTE 12 – OTHER EMPLOYEE BENEFITS**

***A. Compensated Absences***

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Administrators earn up to twenty days of vacation per contract year. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for classified employees and two hundred twenty days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of fifty-six days for classified and certified employees.

***B. Health Care Benefits***

The School District provides health insurance and prescription drug benefits through Anthem Blue Cross Blue Shield. Vision insurance is provided through Vision Service Plan, Inc. and life and dental insurance are provided through Core Source. The premiums for health and dental insurance vary with each employee depending on marital and family status. Premiums for vision and life insurance are a set fee per employee covered.

**NOTE 13 – NOTE TRANSACTIONS**

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

	<u>Interest Rate</u>	<u>Amount Outstanding June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Amount Outstanding June 30, 2005</u>
Bond Anticipation Notes - 2005	4.00%	\$ -	13,575,000	-	13,575,000

**GRAHAM LOCAL SCHOOL DISTRICT**  
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**NOTE 14 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the School District during fiscal year 2005 were as follows:

	Amount Outstanding <u>June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	Amount Outstanding <u>June 30, 2005</u>	Amount Due Within <u>One Year</u>
Long-Term Obligations:					
Asbestos Removal Loan					
0.0%	\$ 41,681	-	7,149	34,532	7,149
General Obligation Bonds:					
1998 School Facilities Issue					
Serial and Term Bonds					
3.75% - 5.0%	6,010,000	-	295,000	5,715,000	305,000
Capital Appreciation Bonds					
5.0% - 5.05%	400,638	36,659	-	437,297	-
Capital Lease Payable	-	382,000	-	382,000	19,000
Compensated Absences	<u>1,352,393</u>	<u>657,901</u>	<u>814,350</u>	<u>1,195,944</u>	<u>85,922</u>
Total Governmental Activities	\$ <u>7,804,712</u>	<u>1,076,560</u>	<u>1,116,499</u>	<u>7,764,773</u>	<u>417,071</u>

Asbestos Removal Loan

On May 17, 1991, the School District obtained a loan, in the amount of \$128,683, for providing asbestos removal. The loan was obtained for a twenty-year period, with final maturity during fiscal year 2011. The loan is being retired from the Permanent Improvement Capital Projects Fund.

1998 School Facilities Bonds

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

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, in each of the years 2013 through 2019 (with the balance of \$450,000 to be paid at stated maturity on December 1, 2020), at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2013	\$400,000	2017	\$485,000
2014	420,000	2018	500,000
2015	440,000	2019	500,000
2016	465,000		

**GRAHAM LOCAL SCHOOL DISTRICT**  
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**NOTE 14 – LONG-TERM OBLIGATIONS (Continued)**

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The serial and term bonds maturing on December 1, 2009, 2010, and 2020 are subject to prior redemption on or after December 1, 2008, by and at the sole option of the School District, either in whole or in part (as selected by the School District) on any date and in integral multiples of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

Redemption Dates ( <u>Dates Inclusive</u> )	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101.0
December 1, 2009 through November 30, 2010	100.5
December 1, 2010 and thereafter	100.0

Principal and interest requirements to retire outstanding general obligation debt at June 30, 2005, were as follows:

Year	Principal	Interest	Total
2006	312,149	269,410	581,559
2007	327,149	255,580	582,729
2008	342,149	240,923	583,072
2009	357,149	225,422	582,571
2010	370,936	209,065	580,001
2011-2015	1,637,297	1,448,335	3,085,632
2016-2020	2,390,000	419,000	2,809,000
2021	450,000	11,250	461,250
	\$ 6,186,829	3,078,985	9,265,814

The capital appreciation bonds will mature in 2012 and 2013. The maturity amount of the bonds is \$800,000. For fiscal year 2005, \$36,659 was accreted for a total bond value of \$437,297.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$14,840,580 with an unvoted debt margin of \$219,007 at June 30, 2005.

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**NOTE 14 – LONG-TERM OBLIGATIONS (Continued)**

In fiscal year 1998, the School District was awarded \$11,015,190 for improvements to its facilities under the State’s “Classroom Facilities Program”. Under this program, the School District entered into an agreement with the State of Ohio in which the State paid for a portion of the estimated project costs. Additionally, the School District was required to issue bonds, and levy a property tax for the payment of those bonds, for the School District’s portion of construction and maintenance costs. Any funds provided by the State Classroom Facilities Commission, in excess of construction-costs, shall be returned to the Commission. Any funds remaining from the issuance of the bonds, in excess of construction costs, must be used solely for maintaining the constructed facilities. The constructed facilities must be used for school purposes as long as the Commission retains any interest in the project, or for a period of twenty-three years, whichever is less.

**NOTE 15 – CAPITAL LEASE – LESSEE DISCLOSURE**

During fiscal year 2005, the School District entered into a lease-purchase agreement for the purpose of financing the acquisition and installation of energy conservation measures consisting of software enhancements at the middle and high schools and an ice storage system at the middle school. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. This lease agreement is reported in the Permanent Improvement Fund as other financing sources, inception of capital lease. As of June 30, 2005, only \$45,265 of expenditures was made in conjunction with the lease agreement, therefore, the uncapitalized portion of the lease (\$336,735) has been reported as cash and cash equivalents with fiscal agent on the financial statements. There were no principal payments made on this lease in fiscal year 2005.

The following is a schedule of future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year <u>Ended June 30,</u>	
2006	\$ 35,197
2007	35,391
2008	35,543
2009	34,653
2010	34,762
2011-2015	173,972
2016-2020	<u>174,098</u>
Total	523,616
Less: Amount Representing Interest	(137,942)
Amount Representing Participant Cost Component	<u>(3,674)</u>
Present Value of Net Minimum Lease Payments	\$ <u>382,000</u>

## GRAHAM LOCAL SCHOOL DISTRICT

### CHAMPAIGN COUNTY, OHIO

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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#### **NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS**

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

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

West Central Ohio Special Education Regional Resource Center – The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating members is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326-2385.

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

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

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

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

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

**NOTE 17 – INSURANCE POOL**

Ohio School Boards Association Workers' Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating-Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235.

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

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

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

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**NOTE 18 – RELATED ORGANIZATION**

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

**NOTE 19 – INTERFUND TRANSFERS**

During fiscal year 2005 the General Fund received money from various student activities. The General Fund then transferred these monies to other governmental funds to finance other programs.

**NOTE 20 - STATE SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**NOTE 21 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

**B. Litigation**

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

**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY, OHIO**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 22 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance, As of June 30, 2004	\$ (97,543)	-
Current Year Set-aside Requirement	307,266	307,266
Qualifying Disbursements	<u>(277,408)</u>	<u>(249,725)</u>
Total	<u>(67,685)</u>	<u>57,541</u>
Balance Carried Forward to FY 2006	\$ <u>(67,685)</u>	<u>57,541</u>

Although the School District did not have qualifying disbursements during the year that would have reduced the set-aside below zero for capital acquisition, the deficit amounts may not be used to reduce the set-aside requirements of future years.

**NOTE 23 – CHANGE IN ACCOUNTING PRINCIPLE**

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which revised the necessary disclosures that address risk related to deposits and investments and amended Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 involves required disclosures about:

- Custodial Credit Risk
- Credit Risk
- Concentration of Credit Risk
- Interest Rate Risk, and
- Foreign Currency Risk

Additional disclosures are required regarding investment policies related to disclose risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Implementation of this new accounting principle had no effect on these financial statements.



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

Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b><u>Revenues:</u></b>				
Taxes	\$ 4,590,559	4,616,692	4,585,198	(31,494)
Intergovernmental	9,958,912	9,965,331	9,382,009	(583,322)
Interest	101,441	101,441	85,582	(15,859)
Tuition and Fees	685,528	685,528	578,353	(107,175)
Gifts and Donations	-	-	136	136
Miscellaneous	181,401	181,401	154,549	(26,852)
<b>Total Revenues</b>	<b>15,517,841</b>	<b>15,550,393</b>	<b>14,785,827</b>	<b>(764,566)</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	6,938,451	6,930,827	6,620,296	310,531
Special	1,381,091	1,352,014	1,322,265	29,749
Vocational	126,806	108,286	57,802	50,484
Adult/Continuing	-	2,000	3,000	(1,000)
Other	559,827	966,827	967,202	(375)
Support Services:				
Pupils	781,054	745,995	724,492	21,503
Instructional Staff	1,138,779	1,179,305	1,137,125	42,180
Board of Education	50,715	56,215	40,568	15,647
Administration	1,285,121	1,285,063	1,219,533	65,530
Fiscal	414,690	415,740	367,257	48,483
Business	60,156	33,219	16,683	16,536
Operation and Maintenance of Plant	1,485,985	1,447,746	1,278,914	168,832
Pupil Transportation	1,207,219	1,235,289	1,160,148	75,141
Central	98,438	120,438	81,258	39,180
Extracurricular Activities	295,160	294,360	282,030	12,330
Capital Outlay	7,571	6,017	-	6,017
Debt Service:				
Interest	-	7,250	3,585	3,665
<b>Total Expenditures</b>	<b>15,831,063</b>	<b>16,186,591</b>	<b>15,282,158</b>	<b>904,433</b>
Excess of Revenues Over (Under) Expenditures	(313,222)	(636,198)	(496,331)	139,867
<b><u>Other Financing Sources (Uses):</u></b>				
Advances Out	(3,000)	-	-	-
Transfers In	-	-	983	983
Transfers Out	(2,000)	(5,000)	(983)	4,017
<b>Total Other Financing Sources (Uses)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>-</b>	<b>5,000</b>
Net Change in Fund Balance	(318,222)	(641,198)	(496,331)	144,867
Fund Balance, Beginning of Year	1,204,238	1,204,238	1,204,238	-
Prior Year Encumbrances Appropriated	115,830	115,830	115,830	-
Fund Balance, End of Year	\$ 1,001,846	678,870	823,737	144,867

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2005

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Basis of Budgeting

Basis of budgeting refers to when revenues and expenditures or expenses are recognized in the accounts. The Graham Local School District's (the School District) budget for all legislated funds are prepared on a cash-encumbrance basis wherein transactions are recorded when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

The basis of budgeting differs from generally accepted accounting principles (GAAP) used for the School District's year-end basic financial statements. Under that basis of accounting, revenues are generally recognized when the obligation to the School District arises; the budget basis however, recognizes revenue only when cash has been received. In the basic financial statements, expenditures are generally recognized in the period in which they are incurred. Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

General Budget Policies

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund/object for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate of estimated resources issued during fiscal year 2005.

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

Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2005

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Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund/object for the General Fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total fund appropriation, or alter total appropriation at the legal level of control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriation resolutions were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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

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

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAIGN COUNTY, OHIO**  
Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2005

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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**

	<u>General Fund</u>
GAAP Basis	\$ 119,512
Revenue Accruals	(366,076)
Expenditure Accruals	<u>(249,767)</u>
Budget (Non-GAAP) Basis	\$ <u><u>(496,331)</u></u>

**Graham Local School District**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Award Receipts</u>	<u>Award Disbursements</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education</i>				
Nutritional Cluster:				
Food Distribution Program	NN-N1	10.550	41,102	41,102
National School Lunch Program	04-PU	10.555	<u>149,535</u>	<u>149,535</u>
Total U.S. Department of Agriculture			<u>190,637</u>	<u>190,637</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education</i>				
Title I Grant	C1-S1	84.010	205,358	198,773
Special Education Cluster:				
Title VI-B Grant	6B-SF	84.027	398,881	398,881
Drug Free Schools and Communities	DR-S1	84.186	8,342	4,592
Title VI - Innovative Education Grant	C2-S1	84.298	8,971	8,971
Title II-D - Technology	TJ-S1	84.318	4,824	4,824
Improving Teacher Quality	TR-S1	84.367	<u>68,685</u>	<u>64,469</u>
Total U.S. Department of Education			<u>695,061</u>	<u>680,510</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>885,698</u>	<u>871,147</u>

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

**GRAHAM LOCAL SCHOOL DISTRICT**  
**CHAMPAING COUNTY, OHIO**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2005

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1. SIGNIFICANT ACCOUNTING POLICES

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

2. NUTRITION CLUSTER

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



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

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

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

We have audited the financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Graham Local School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated December 30, 2005.

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

*Clark, Schaefer, Hachitt & Co.*

Springfield, Ohio  
December 30, 2005





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

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

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

Compliance

We have audited the compliance of Graham Local School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Graham Local School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
December 30, 2005

GRAHAM LOCAL SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A-133 § .505  
 JUNE 30, 2005

1. SUMMARY OF AUDITORS' RESULTS

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

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

None

3. FINDINGS RELATED TO THE DISTRICT'S FEDERAL AWARDS

None

GRAHAM LOCAL SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2005

None





**Auditor of State  
Betty Montgomery**

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**GRAHAM LOCAL SCHOOL DISTRICT**

**CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 4, 2006**