



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Galion City School District, Crawford County, Ohio, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Galion City School District, Crawford County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof, and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

December 4, 2006



**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

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The discussion and analysis of Galion City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. 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 basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2006 are as follows:

In total, net assets increased \$17,498,403, over 273 percent. This increase is the result of monies received from the Ohio School Facilities Commission which had not been spent as of fiscal year end.

General revenues were \$33,970,888, or 91 percent of total revenues, and reflect the School District's substantial dependence on property taxes and unrestricted state entitlements.

In August 2003, the voters of the School District approved a 6.84 mill bond levy for school building construction and in May 2005 approved a one-half mill capital maintenance levy. The construction levy provided for the construction of a high school, middle school, two elementary schools, and the renovation of a building for administrative offices. The project is part of the Classroom Facilities Assistance Program offered through the Ohio School Facilities Commission. The first year of construction draws from the Ohio School Facilities Commission occurred during fiscal year 2006. The high school will open at the beginning of the 2007-2008 school year. The middle school and elementary schools may be available as early as mid-year during the 2007-2008 school year.

In February 2006, the School District successfully passed the renewal of a 7.73 mill operating levy. In May 2006, the School District was unsuccessful in passing a 4 mill operating levy. The proceeds of this levy were partially to replace the effect of the repeal of a 9.4 mill operating levy in November 2004. Initial reductions in real estate tax collections due to the repeal were realized in January 2006. Significant reductions in expenditures were instituted for the 2006-2007 school year because of the defeat of the May 2006 levy.

**Using the Basic Financial Statements**

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Galion City School District, the General Fund and Ohio School Facilities Commission capital projects fund are the most significant funds.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

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**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial 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, all of the School District activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

**Reporting the School District's Most Significant Funds**

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund and Ohio School Facilities Commission capital projects fund.

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

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

	Table 1 Net Assets	
	Governmental Activities	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$36,012,251	\$26,646,861
Capital Assets, Net	13,551,740	3,558,939
Total Assets	49,563,991	30,205,800
<u>Liabilities:</u>		
Current and Other Liabilities	9,074,985	6,863,101
Long-Term Liabilities	16,584,565	16,936,661
Total Liabilities	25,659,550	23,799,762
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	11,854,875	3,223,071
Restricted	11,442,479	2,389,344
Unrestricted	607,087	793,623
Total Net Assets	\$23,904,441	\$6,406,038

The above table demonstrates some significant changes from the prior fiscal year. There was a 35 percent increase in current and other assets, almost all of which can be attributed to an increase in cash and cash equivalents. This is from monies received from the Ohio School Facilities Commission which was unspent as of fiscal year end. This change is also reflected in the increase in restricted net assets. In addition, there was a substantial increase in capital assets and invested in capital assets, the result of construction in progress for the new high school, middle school, and two elementary schools. Lastly, there was a 32 percent increase in current and other liabilities, primarily from contracts payable, again related to construction activities.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

Table 2  
Change in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$838,854	\$874,484
Operating Grants, Contributions, and Interest	2,573,133	1,866,693
Capital Grants and Contributions	82,153	108,032
Total Program Revenues	<u>3,494,140</u>	<u>2,849,209</u>
General Revenues		
Property Taxes Levied for General Purposes	5,726,470	6,476,201
Property Taxes Levied for Classroom Facilities Purposes	80,631	0
Property Taxes Levied for Debt Service Purposes	1,167,373	1,324,035
Payment in Lieu of Taxes	92,785	0
Grants and Entitlements	25,941,389	9,475,293
Interest	848,358	385,285
Gifts and Donations	167	0
Miscellaneous	113,715	52,465
Total General Revenues	<u>33,970,888</u>	<u>17,713,279</u>
Total Revenues	<u>37,465,028</u>	<u>20,562,488</u>
<u>Expenses:</u>		
Instruction:		
Regular	8,889,220	8,545,863
Special	2,668,313	2,619,955
Vocational	119,269	107,046
Support Services:		
Pupils	711,447	731,614
Instructional Staff	877,464	941,963
Board of Education	60,416	60,357
Administration	1,503,532	1,522,955
Fiscal	504,015	395,023
Operation and Maintenance of Plant	1,609,005	1,268,916
Pupil Transportation	680,963	557,071
Central	252,607	181,544
Non-Instructional Services	761,210	719,646
Extracurricular Activities	667,424	585,607
Intergovernmental	0	105,047
Interest and Fiscal Charges	661,740	669,547
Total Expenses	<u>19,966,625</u>	<u>19,012,154</u>
Increase in Net Assets	<u>17,498,403</u>	<u>1,550,334</u>
Net Assets Beginning of Year	<u>6,406,038</u>	<u>4,855,704</u>
Net Assets End of Year	<u>\$23,904,441</u>	<u>\$6,406,038</u>

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

For fiscal year 2006, program revenues represented 9 percent of total revenues, which is a decrease from the 14 percent of total revenues in the prior year, even though the School District received a much larger amount of resources from operating grants and contributions (primarily for special instruction purposes). The drop in the overall percentage of program revenues is due to the significant increase in general revenues in 2006.

For fiscal year 2006, general revenues represented 91 percent of the School District's total revenues, and of this amount, 76 percent consists primarily of State foundation resources and of monies received from the Ohio School Facilities Commission (these monies are also the reason for the significant increase in general revenues from the prior year). Almost all of the remainder of the School District's general revenues is made up of property taxes, 21 percent. Other revenue sources, such as interest, gifts and donations, and miscellaneous revenues are insignificant and somewhat unpredictable revenue sources.

While there were significant changes in revenues in fiscal year 2006, expenses remained very comparable to fiscal year 2005. The major program expense, as expected, is for instruction, which accounts for 58 percent of all expenses. The instruction program, however, does not include all activities associated with educating students such as the pupils, instructional staff, and pupil transportation programs have a significant role in delivering education. These programs represent approximately 11 percent of total expenses.

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

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$8,889,220	\$8,545,863	\$8,155,298	\$7,875,711
Special	2,668,313	2,619,955	787,089	1,785,868
Vocational	119,269	107,046	95,217	107,046
Support Services:				
Pupils	711,447	731,614	704,452	716,523
Instructional Staff	877,464	941,963	877,464	658,112
Board of Education	60,416	60,357	60,416	60,357
Administration	1,503,532	1,522,955	1,503,532	1,499,351
Fiscal	504,015	395,023	504,015	393,943
Operation and Maintenance of Plant	1,609,005	1,268,916	1,609,005	1,219,403
Pupil Transportation	680,963	557,071	599,795	504,135
Central	252,607	181,544	252,607	174,764
Non-Instructional Services	761,210	719,646	117,588	47,404
Extracurricular Activities	667,424	585,607	544,267	429,991
Intergovernmental	0	105,047	0	20,790
Interest and Fiscal Charges	661,740	669,547	661,740	669,547
<b>Total Expenses</b>	<b>\$19,966,625</b>	<b>\$19,012,154</b>	<b>\$16,472,485</b>	<b>\$16,162,945</b>

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

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The total and net cost of services for fiscal year 2006 was very similar to fiscal year 2005. Only a very few of the School District's programs receive a significant amount of program revenues to offset their costs. Almost 71 percent of special instruction costs are provided for through various operating grants restricted for special instruction purposes. Almost 85 percent of non-instructional services were provided for through program revenues. This is primarily due to cafeteria sales, state and federal subsidies and donated commodities for food service, and for State resources received by the School District on behalf of the parochial school located within the School District.

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. A review of the School District's major funds demonstrates an increase in fund balance for both the General Fund and Ohio School Facilities Commission capital projects fund. While the increase was not significant for the General Fund, it is notable that revenues exceeded expenditures. The Ohio School Facilities Commission capital projects fund did not have a fund balance in the prior year. The fund balance at June 30, 2006 is from the combination of resources received for construction from the Commission as well as the transfer of the School District's share of construction costs.

**General Fund Budgeting Highlights**

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

During fiscal year 2006, the School District amended its General Fund budget as needed. For revenues, the changes from the original to the final budget were not significant, nor were the changes from the final budget to actual revenues. One item of note, however, is the changes made for property taxes. These increases were largely the result of significant delinquent tax collections. Changes from original budget to the final budget and from the final budget to actual expenditures were also not significant.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the School District had \$13,551,740 invested in capital assets (net of accumulated depreciation), an increase of \$9,992,801. This increase is primarily due to construction in progress for a new high school, middle school, and two elementary schools. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**Debt**

The School District's outstanding debt at June 30, 2006, consisted of general obligation bonds, in the amount of \$15,311,032. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

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**Current Issues**

The School District continues to ask for additional support from taxpayers for operating funds. This need is partially the result of the November 2004 repeal of a 9.4 mill levy which took effect with tax collections in 2006. The School District was unsuccessful in May 2006 with a property tax levy and in November 2006 with an income tax levy. As the need still exists, the School District will continue to ask for additional support although the type, amount, and timing of a levy have not yet been determined. Because there will be no additional funding in fiscal year 2007, the School District is reviewing operations to determine where to reduce expenditures so that fiscal year 2008 will end with a positive cash balance.

Galion City School District is partnering with the Ohio School Facilities Commission to build a new high school, middle school, and two elementary schools. The final sale of bonds for this project occurred in July 2006. Because of the favorable interest rate as compared with the estimated interest rate on the sale of bonds, the Crawford County Budget Commission has determined that the bond millage rate will be decreased by 3.04 mills for 2007. Construction continues on this project and the high school is scheduled to open in the fall of 2007. If favorable weather conditions occur this winter, the middle school could open after winter break 2007 and the elementary schools could open in January 2008.

The School District will be engaged in a new superintendent search. The current superintendent's term ends on July 31, 2007. The Board of Education has hired a professional search firm to assist in the search process. We are planning to name the next superintendent in the spring of 2007.

**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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda M. Kidwell, Treasurer, Galion City School District, 200 West Church Street, Galion, Ohio 44833-1796.

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**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$28,494,423
Cash and Cash Equivalents	
with Escrow Agent	26,427
Accounts Receivable	12,870
Accrued Interest Receivable	714
Intergovernmental Receivable	279,891
Prepaid Items	32,191
Inventory Held for Resale	4,332
Materials and Supplies Inventory	5,780
Property Taxes Receivable	6,899,562
Unamortized Issuance Costs	256,061
Nondepreciable Capital Assets	11,068,125
Depreciable Capital Assets, Net	<u>2,483,615</u>
Total Assets	<u>49,563,991</u>
 <u>Liabilities:</u>	
Accounts Payable	24,272
Contracts Payable	2,265,744
Accrued Wages and Benefits Payable	1,636,529
Matured Compensated Absences Payable	123,891
Intergovernmental Payable	415,306
Retainage Payable	308,422
Deferred Revenue	4,247,325
Accrued Interest Payable	53,496
Long-Term Liabilities:	
Due Within One Year	376,199
Due in More Than One Year	<u>16,208,366</u>
Total Liabilities	<u>25,659,550</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,854,875
Restricted For:	
Debt Service	944,511
Capital Projects	10,196,455
Other Purposes	301,513
Unrestricted	<u>607,087</u>
Total Net Assets	<u><u>\$23,904,441</u></u>

See Accompanying Notes to Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues				Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Primary Government
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$8,889,220	\$328,809	\$381,561	\$23,552	(\$8,155,298)
Special	2,668,313	89,729	1,791,495	0	(787,089)
Vocational	119,269	3,889	20,163	0	(95,217)
Support Services:					
Pupils	711,447	0	6,995	0	(704,452)
Instructional Staff	877,464	0	0	0	(877,464)
Board of Education	60,416	0	0	0	(60,416)
Administration	1,503,532	0	0	0	(1,503,532)
Fiscal	504,015	0	0	0	(504,015)
Operation and Maintenance of Plant	1,609,005	0	0	0	(1,609,005)
Pupil Transportation	680,963	0	22,567	58,601	(599,795)
Central	252,607	0	0	0	(252,607)
Non-Instructional Services	761,210	299,860	343,762	0	(117,588)
Extracurricular Activities	667,424	116,567	6,590	0	(544,267)
Interest and Fiscal Charges	661,740	0	0	0	(661,740)
<b>Total Governmental Activities</b>	<b>\$19,966,625</b>	<b>\$838,854</b>	<b>\$2,573,133</b>	<b>\$82,153</b>	<b>(16,472,485)</b>

General Revenues:

Property Taxes Levied for General Purposes	5,726,470
Property Taxes Levied for Classroom Facilities Purposes	80,631
Property Taxes Levied for Debt Service Purposes	1,167,373
Payment in Lieu of Taxes	92,785
Grants and Entitlements not Restricted to Specific Programs	25,941,389
Interest	848,358
Gifts and Donations	167
Miscellaneous	113,715
<b>Total General Revenues</b>	<b>33,970,888</b>

Change in Net Assets 17,498,403

Net Assets at Beginning of Year - Restated (Note 3) 6,406,038  
**Net Assets at End of Year** **\$23,904,441**

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	General	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,642,020	\$22,942,121	\$3,910,282	\$28,494,423
Accounts Receivable	12,006	0	864	12,870
Accrued Interest Receivable	714	0	0	714
Interfund Receivable	36,910	0	0	36,910
Intergovernmental Receivable	60,669	0	219,222	279,891
Prepaid Items	32,191	0	0	32,191
Inventory Held for Resale	0	0	4,332	4,332
Materials and Supplies Inventory	3,590	0	2,190	5,780
<u>Restricted Assets:</u>				
Cash and Cash Equivalents with Escrow Agent	0	26,427	0	26,427
Property Taxes Receivable	5,466,624	0	1,432,938	6,899,562
<b>Total Assets</b>	<b>\$7,254,724</b>	<b>\$22,968,548</b>	<b>\$5,569,828</b>	<b>\$35,793,100</b>
 <u>Liabilities and Fund Balances:</u>				
<u>Liabilities</u>				
Accounts Payable	\$1,889	\$16,155	\$6,228	\$24,272
Contracts Payable	0	1,936,315	329,429	2,265,744
Accrued Wages and Benefits Payable	1,450,919	0	185,610	1,636,529
Matured Compensated Absences Payable	0	0	123,891	123,891
Interfund Payable	0	0	36,910	36,910
Intergovernmental Payable	365,226	1,527	48,553	415,306
Retainage Payable	0	281,995	0	281,995
<u>Liabilities Payable from Restricted Assets:</u>				
Retainage Payable	0	26,427	0	26,427
Deferred Revenue	3,755,206	0	1,019,429	4,774,635
<b>Total Liabilities</b>	<b>5,573,240</b>	<b>2,262,419</b>	<b>1,750,050</b>	<b>9,585,709</b>
 <u>Fund Balances:</u>				
Reserved for Property Taxes	1,775,389	0	448,248	2,223,637
Reserved for Encumbrances	301,061	6,699,872	1,951,124	8,952,057
<u>Unreserved Reported in:</u>				
General Fund (Deficit)	(394,966)	0	0	(394,966)
Special Revenue Funds (Deficit)	0	0	(31,741)	(31,741)
Debt Service Fund	0	0	759,988	759,988
Capital Projects Funds	0	14,006,257	692,159	14,698,416
<b>Total Fund Balances</b>	<b>1,681,484</b>	<b>20,706,129</b>	<b>3,819,778</b>	<b>26,207,391</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$7,254,724</b>	<b>\$22,968,548</b>	<b>\$5,569,828</b>	<b>\$35,793,100</b>

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

Total Governmental Fund Balances		\$26,207,391
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		13,551,740
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Accounts Receivable	63,981	
Intergovernmental Receivable	34,729	
Property Taxes Receivable	428,600	
		527,310
<p>Unamortized issuance costs are deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.</p>		256,061
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Accrued Interest Payable	(53,496)	
General Obligation Bonds Payable	(15,311,032)	
Compensated Absences Payable	(1,273,533)	
		(16,638,061)
Net Assets of Governmental Activities		\$23,904,441

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$5,846,851	\$0	\$1,263,959	\$7,110,810
Payment in Lieu of Taxes	0	0	92,785	92,785
Intergovernmental	9,686,772	16,970,617	2,045,703	28,703,092
Interest	133,528	403,653	347,302	884,483
Tuition and Fees	358,513	0	59	358,572
Extracurricular Activities	240	0	101,174	101,414
Charges for Services	0	0	299,860	299,860
Gifts and Donations	0	0	7,493	7,493
Miscellaneous	67,184	700	84,361	152,245
Total Revenues	<u>16,093,088</u>	<u>17,374,970</u>	<u>4,242,696</u>	<u>37,710,754</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	7,977,891	0	409,517	8,387,408
Special	1,765,998	0	852,645	2,618,643
Vocational	116,527	0	0	116,527
Support Services:				
Pupils	699,377	0	6,308	705,685
Instructional Staff	620,783	0	244,827	865,610
Board of Education	54,566	0	5,850	60,416
Administration	1,401,707	0	96,182	1,497,889
Fiscal	430,760	0	64,807	495,567
Operation and Maintenance of Plant	1,492,013	0	9,310	1,501,323
Pupil Transportation	698,503	0	2,406	700,909
Central	161,853	0	85,241	247,094
Non-Instructional Services	546	0	744,110	744,656
Extracurricular Activities	440,471	0	183,844	624,315
Capital Outlay	0	8,813,154	1,832,564	10,645,718
Debt Service:				
Principal Retirement	0	0	443,803	443,803
Interest and Fiscal Charges	0	0	646,675	646,675
Total Expenditures	<u>15,860,995</u>	<u>8,813,154</u>	<u>5,628,089</u>	<u>30,302,238</u>
Excess of Revenues Over (Under) Expenditures	<u>232,093</u>	<u>8,561,816</u>	<u>(1,385,393)</u>	<u>7,408,516</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	12,144,313	147,675	12,291,988
Transfers Out	(147,675)	0	(12,144,313)	(12,291,988)
Total Other Financing Sources (Uses)	<u>(147,675)</u>	<u>12,144,313</u>	<u>(11,996,638)</u>	<u>0</u>
Changes in Fund Balances	84,418	20,706,129	(13,382,031)	7,408,516
Fund Balances at Beginning of Year - Restated (Note 3)	<u>1,597,066</u>	<u>0</u>	<u>17,201,809</u>	<u>18,798,875</u>
Fund Balances at End of Year	<u>\$1,681,484</u>	<u>\$20,706,129</u>	<u>\$3,819,778</u>	<u>\$26,207,391</u>

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Changes in Fund Balances - Total Governmental Funds \$7,408,516

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

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

Capital Outlay - Nondepreciable Capital Assets	10,099,494	
Capital Outlay - Depreciable Capital Assets	228,729	
Depreciation	(308,958)	10,019,265

The cost of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities. (26,464)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	(136,336)	
Intergovernmental	(139,722)	
Interest	(33,649)	
Tuition and Fees	63,971	
Extracurricular Activities	10	(245,726)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 443,803

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net assets.

Accrued Interest Payable	791	
Annual Accretion on Capital Appreciation Bonds	(15,922)	
Amortization of Premium	10,141	(4,990)

Issuance costs are reported as an expenditure when paid in the governmental funds, but are amortized over the life of the debt on the statement of activities. (10,075)

Compensated absences do not require the use of current financial resources and, therefore, are not reported as an expenditure in the governmental funds. (85,926)

Change in Net Assets of Governmental Activities \$17,498,403

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues:</u>				
Property Taxes	\$5,775,917	\$5,890,917	\$6,156,810	\$265,893
Intergovernmental	9,866,392	9,770,853	9,686,772	(84,081)
Interest	55,000	105,000	135,347	30,347
Tuition and Fees	428,500	357,968	356,339	(1,629)
Extracurricular Activities	200	200	240	40
Miscellaneous	66,300	78,300	56,869	(21,431)
Total Revenues	<u>16,192,309</u>	<u>16,203,238</u>	<u>16,392,377</u>	<u>189,139</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	8,045,532	8,016,645	8,068,820	(52,175)
Special	2,112,574	1,882,599	1,916,092	(33,493)
Vocational	125,482	120,204	116,836	3,368
Support Services:				
Pupils	720,558	731,335	707,642	23,693
Instructional Staff	726,911	696,265	642,788	53,477
Board of Education	92,261	70,561	64,834	5,727
Administration	1,600,656	1,566,741	1,501,721	65,020
Fiscal	418,763	384,814	432,318	(47,504)
Operation and Maintenance of Plant	1,716,921	1,610,229	1,504,034	106,195
Pupil Transportation	645,617	683,117	700,822	(17,705)
Central	249,444	202,698	169,169	33,529
Non-Instructional Services	2,360	2,360	552	1,808
Extracurricular Activities	608,772	603,772	443,229	160,543
Capital Outlay	5,000	0	0	0
Total Expenditures	<u>17,070,851</u>	<u>16,571,340</u>	<u>16,268,857</u>	<u>302,483</u>
Excess of Revenues Over (Under) Expenditures	<u>(878,542)</u>	<u>(368,102)</u>	<u>123,520</u>	<u>491,622</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	1,500	1,500	3,307	1,807
Advances In	75,000	157,000	190,342	33,342
Advances Out	(75,000)	(155,000)	(155,225)	(225)
Transfers Out	(85,000)	(149,129)	(147,675)	1,454
Total Other Financing Sources (Uses)	<u>(83,500)</u>	<u>(145,629)</u>	<u>(109,251)</u>	<u>36,378</u>
Changes in Fund Balance	(962,042)	(513,731)	14,269	528,000
Fund Balance at Beginning of Year	1,002,507	1,002,507	1,002,507	0
Prior Year Encumbrances Appropriated	317,240	317,240	317,240	0
Fund Balance at End of Year	<u>\$357,705</u>	<u>\$806,016</u>	<u>\$1,334,016</u>	<u>\$528,000</u>

See Accompanying Notes to the Basic Financial Statements

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	<u>\$59,541</u>	<u>\$102,129</u>
<u>Liabilities:</u>		
Undistributed Assets	\$0	\$11,818
Due to Students	0	90,311
Total Liabilities	<u>0</u>	<u>\$102,129</u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	43,651	
Endowment	<u>15,890</u>	
Total Net Assets	<u>\$59,541</u>	

See Accompanying Notes to the Basic Financial Statements



**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Additions:

Interest	\$2,351
Gifts and Donations	1,800
Total Additions	<u>4,151</u>

Deductions:

Non-Instructional Services	<u>5,200</u>
Change in Net Assets	(1,049)

Net Assets at Beginning of Year - Restated (Note 3)	<u>60,590</u>
Net Assets at End of Year	<u><u>\$59,541</u></u>

See Accompanying Notes to the Basic Financial Statements

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**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Note 1 - Description of the School District and Reporting Entity**

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

The School District was established in 1847. The School District serves an area of approximately thirty-two square miles and is located in Crawford, Morrow, and Richland Counties. The School District is the 260th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by sixty-two classified employees, one hundred forty-eight certified teaching personnel, and nineteen administrative employees who provide services to 2,149 students and other community members. The School District currently operates three elementary schools, a middle school, and a high school.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 Galion City School District, this includes general operations, food service, 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 otherwise assumed the 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 issuance of debt, or the levying of taxes. There are no component units of the Galion City School District.

The following activity is included within the School District's reporting entity:

Within the School District boundaries, St. Joseph Elementary is operated as a private school. Current state legislation provides funding to this parochial school. The monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District participates in five jointly governed organizations and two insurance pools. These organizations are the North Central Ohio Computer Cooperative/Heartland Council of Governments, Pioneer Career and Technology Center, North Central Ohio Special Educational Regional Resource Center, North Central Regional Professional Development Center, Metropolitan Educational Council, Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Wyandot-Crawford Health Benefit Plan. These organizations are presented in Notes 20 and 21 to the basic financial statements.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies**

The basic financial statements of Galion City 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 governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the 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 fiscal year end. The 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, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the 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 fiscal 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's two major funds are the General Fund and the Ohio School Facilities Commission capital projects 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 balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission capital projects fund accounts for the construction of two elementary schools, a middle school, and a high school.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds

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

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of 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. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the full 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.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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. On the accrual basis, 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 fiscal 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 the 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 both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

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

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

**E. Budgetary Process**

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

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

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2006, the School District invested in nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value, except for nonnegotiable certificates of deposit which are reported at cost. Fair value is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 was \$133,528, which includes \$27,676 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

Restricted assets in the Ohio School Facilities Commission capital projects fund represent escrow accounts established for the payment of retainage on construction projects upon completion.



**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**J. Capital Assets**

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except 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:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	10 - 60 years
Buildings and Building Improvements	6 - 50 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	5 - 25 years

**K. Interfund Assets/Liabilities**

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

**L. 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 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.

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they come due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

**N. 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 balance of any borrowing 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. Net assets restricted for other purposes include resources restricted for athletic and music programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, there were no net assets restricted by enabling legislation.

**O. Fund Balance Reserves**

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies** (continued)

**P. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**R. Estimates**

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

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets**

**A. Change in Accounting Principles**

For fiscal year 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This statement establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

**B. Correction of Errors**

In the prior fiscal year, the School District reported several funds incorrectly and made errors in reporting capital assets, intergovernmental receivables, and intergovernmental payables.

**GALION CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets** (continued)

**C. Restatement of Fund Balance/Net Assets**

The restatement due to the above corrections had the following effect on fund balances of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balances June 30, 2005	\$1,597,066	\$17,210,206	\$18,807,272
Change in Fund Structure	0	(8,454)	(8,454)
Intergovernmental Payable	0	57	57
Adjusted Fund Balance at June 30, 2005	\$1,597,066	\$17,201,809	\$18,798,875

The restatement had the following effect on net assets.

	Total Governmental Activities	Private Purpose Trust
Net Assets at June 30, 2005	\$5,822,716	\$60,897
Change in Fund Structure	(8,454)	(307)
Intergovernmental Receivable	(12,337)	0
Capital Assets	(95,384)	0
Accumulated Depreciation	699,440	
Intergovernmental Payable	57	0
Adjusted Governmental Activities Net Assets at June 30, 2005	\$6,406,038	
Adjusted Fiduciary Fund Net Assets at June 30, 2005		\$60,590

**Note 4 - Accountability**

At June 30, 2006, the following funds had deficit fund balances:

Fund Type/Fund	Deficit
Special Revenue Funds	
Food Service	\$48,345
Termination Benefits	123,891
EMIS	128
Poverty Based Assistance	5,035
Early Childhood Special Education	15

**GALION CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 4 – Accountability** (continued)

The deficit fund balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

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 (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are 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 liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$84,418
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	2,088,313
Accrued FY 2006, Not Yet Received in Cash	(1,785,717)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,929,525)
Accrued FY 2006, Not Yet Paid in Cash	1,818,034
Prepaid Items	(1,990)
Materials and Supplies Inventory	13,623
Advances In	190,342
Advances Out	(155,225)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(308,004)
Budget Basis	\$14,269

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 6 - Deposits and Investments**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District may be deposited or invested in the following securities:

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 6 - Deposits and Investments** (continued)

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$11,678,295 of the School District's bank balance of \$12,077,685 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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 FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2006, the School District had the following investments:

	Fair Value	Maturity
Federal Home Loan Bank Notes	\$2,548,357	7/21/06
Federal Home Loan Bank Notes	1,005,289	7/30/07
Federal Home Loan Mortgage Corporation Notes	1,185,240	9/26/06
Federal Home Loan Mortgage Corporation Notes	1,353,520	2/16/07
Federal Home Loan Mortgage Corporation Notes	958,200	4/17/07
Federal Home Loan Mortgage Corporation Notes	1,242,800	5/2/07
Federal National Mortgage Association Notes	1,950,400	12/20/06
Federal National Mortgage Association Notes	965,800	2/23/07
Federal National Mortgage Association Notes	1,922,000	3/28/07
Federal National Mortgage Association Notes	1,903,200	6/1/07
First American Mutual Fund	25,916	3 days
STAR Ohio	1,846,673	34.8 days
	\$16,907,395	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 6 - Deposits and Investments** (continued)

The Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and First American Mutual Fund carry a rating of AAA by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must consist of obligations listed in item (1) or (2) on page 32 and STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the School District's total portfolio.

	Fair Value	Percentage of Portfolio
Federal Home Loan Bank Notes	\$3,553,646	21.02%
Federal Home Loan Mortgage Corporation Notes	4,739,760	28.03
Federal National Mortgage Association Notes	6,741,400	39.87

**Note 7 - Receivables**

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Tuition	\$53,939
Mid-Ohio Educational Service Center	5,668
Crawford County	869
State of Ohio	193
Total General Fund	60,669
Other Governmental Funds	
Food Service	36,460
Title VI-B	84,947
Title I	84,623
Title II-A	13,192
Total Other Governmental Funds	219,222
Total Intergovernmental Receivables	\$279,891



**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 8 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Crawford, Morrow, and Richland 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 counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$1,775,389 in the General Fund, \$30,462 in the Classroom Facilities special revenue fund, and \$417,786 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2005, was \$2,085,348 in the General Fund and \$447,161 in the Bond Retirement debt service fund.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 8 - Property Taxes** (continued)

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

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$168,508,490	86.15%	\$171,040,810	89.18%
Public Utility	4,652,240	2.38	4,005,670	2.09
Tangible Personal	22,447,970	11.47	16,742,813	8.73
<b>Total Assessed Value</b>	<b>\$195,608,700</b>	<b>100.00%</b>	<b>\$191,789,293</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$66.30		\$64.27	

During fiscal year 2005, the voters repealed a 9.4 mill operating levy.

**Note 9 - Payment in Lieu of Taxes**

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The payment is received annually either as an agreed upon flat amount per year or the amount of estimated taxes that would have been due in that fiscal year. The agreements are for a five to fifteen year period. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$888,571	\$175,294	\$0	\$1,063,865
Construction in Progress	80,060	9,924,200	0	10,004,260
<b>Total Nondepreciable Capital Assets</b>	<b>968,631</b>	<b>10,099,494</b>	<b>0</b>	<b>11,068,125</b>

(continued)

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 10 - Capital Assets** (continued)

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Depreciable Capital Assets				
Land Improvements	\$678,772	\$0	(\$70,500)	\$608,272
Buildings and Building Improvements	6,522,825	0	0	6,522,825
Furniture, Fixtures, and Equipment	647,654	32,079	(25,987)	653,746
Vehicles	885,142	196,650	(41,792)	1,040,000
<b>Total Depreciable Capital Assets</b>	<b>8,734,393</b>	<b>228,729</b>	<b>(138,279)</b>	<b>8,824,843</b>
Less Accumulated Depreciation				
Land Improvements	(338,250)	(24,455)	53,544	(309,161)
Buildings and Building Improvements	(4,860,838)	(193,533)	0	(5,054,371)
Furniture, Fixtures, and Equipment	(437,163)	(33,044)	16,479	(453,728)
Vehicles	(507,834)	(57,926)	41,792	(523,968)
<b>Total Accumulated Depreciation</b>	<b>(6,144,085)</b>	<b>(308,958)</b>	<b>111,815</b>	<b>(6,341,228)</b>
<b>Depreciable Capital Assets, Net</b>	<b>2,590,308</b>	<b>(80,229)</b>	<b>(26,464)</b>	<b>2,483,615</b>
Governmental Activities Capital Assets, Net	<b>\$3,558,939</b>	<b>\$10,019,265</b>	<b>(\$26,464)</b>	<b>\$13,551,740</b>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$79,858
Special	12,803
Vocational	2,742
Support Services:	
Pupils	1,277
Instructional Staff	4,283
Administration	3,527
Fiscal	2,326
Operation and Maintenance of Plant	110,657
Pupil Transportation	50,615
Central	4,592
Non-Instructional Services	10,125
Extracurricular Activities	26,153
<b>Total Depreciation Expense</b>	<b>\$308,958</b>

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 11 - Interfund Assets/Liabilities**

At June 30, 2006, the General Fund had an interfund receivable, in the amount of \$36,910, from other government funds to provide cash flow resources until sufficient revenues are received in the other governmental funds.

**Note 12 - Risk Management**

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 2006, the School District contracted for the following insurance coverage.

Coverage provided by Selective Insurance Company of South Carolina is as follows:

Buildings and Contents - replacement cost	\$48,024,868
Automobile Liability	2,000,000
General School District Liability	
Per Occurrence	2,000,000
Total per Year	4,000,000
Umbrella Liability	5,000,000

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

For fiscal year 2006, 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.

The School District participates in the Wyandot-Crawford Health Benefit Plan (Plan), a public entity shared risk pool consisting of five school districts. The School District pays monthly premiums to the Plan for medical, dental, and life insurance coverage. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, the participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 13 - Significant Contractual Commitments**

The School District has several outstanding contracts for professional services. The following amounts remain on these contracts as of June 30, 2006:

Vendor	Contract Amount	Amount Paid as of 6/30/06	Outstanding Balance
Adena Construction	\$9,766,954	\$2,226,243	\$7,540,711
C.R.M. Inc.	494,000	0	494,000
Exterior Systems	809,684	34,738	774,946
Fanning/Howey and Associates	2,919,777	2,091,200	828,577
Gilbane Building Company	2,543,276	744,141	1,799,135
Guenther Mechanical	2,290,209	699,380	1,590,829
Rietschlin Construction	2,931,973	853,565	2,078,408
Simonson Construction	6,876,143	0	6,876,143
Universal Refrigeration	2,191,000	0	2,191,000
Vaughn Industries	3,946,367	650,756	3,295,611
Vulcan Enterprises	300,153	1,965	298,188

**Note 14 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 14 - Defined Benefit Pension Plans** (continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$1,064,571, \$1,199,471, and \$1,215,783, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$12,830 made by the School District and \$4,622 made by plan members.

**B. School Employees Retirement System**

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$198,726, \$262,532, and \$275,829, respectively; 51 percent has been contributed for the fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 15 - Postemployment Benefits**

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$82,877.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available). For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. 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.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$101,805 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 16 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to thirty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees 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 eighty days for certified employees and two hundred seventy days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to the maximum of sixty days for certified employees and sixty-seven and one-half days for classified employees.

**B. Health Care Benefits**

The School District offers medical, dental, and life insurance to most employees through the Wyandot-Crawford Health Benefit Plan. The School District also provides vision insurance through Vision Service Plan. Premiums vary for each employee depending on the terms of the union contracts.

**Note 17 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Long-Term Obligations					
School Improvement Bonds FY 2004					
Term Bonds 4.25-5%	\$12,105,000	\$0	\$0	\$12,105,000	\$0
Serial Bonds 2-4%	3,215,000	0	430,000	2,785,000	180,000
Capital Appreciation Bonds 11.42%	110,000	0	0	110,000	0
Accretion on Capital Appreciation Bonds	16,335	15,922	0	32,257	0
Premium	267,892	0	10,141	257,751	0
Boiler Replacement FY 1999 4.685%	27,407	0	6,383	21,024	6,686
					(continued )



**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 17 - Long-Term Obligations** (continued)

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities (continued)					
Elevator Construction FY 1996 5.4%	\$7,420	\$0	\$7,420	\$0	\$0
Total General Long-Term Obligations	15,749,054	15,922	453,944	15,311,032	186,686
Compensated Absences	1,187,607	146,634	60,708	1,273,533	189,513
Total Governmental Activities Long-Term Obligations	<u>\$16,936,661</u>	<u>\$162,556</u>	<u>\$514,652</u>	<u>\$16,584,565</u>	<u>\$376,199</u>

As of June 30, 2006, the School District had unspent bond proceeds, in the amount of \$13,068,098.

FY 2004 School Improvement Bonds - On March 1, 2004, the School District issued \$16,100,000 in voted general obligation bonds for the construction of two elementary schools, a middle school, and a high school. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$3,885,000 and \$12,105,000, \$110,000, respectively. The bonds were issued for a twenty-seven fiscal year period, with final maturity in fiscal year 2032. The bonds are being retired through the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

<u>Year</u>	<u>Amount</u>
2017	\$430,000
2018	465,000

The remaining principal, in the amount of \$525,000, will be paid at stated maturity on December 1, 2019.

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

<u>Year</u>	<u>Amount</u>
2020	\$565,000

The remaining principal, in the amount of \$605,000, will be paid at stated maturity on December 1, 2021.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 17 - Long-Term Obligations** (continued)

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

<u>Year</u>	<u>Amount</u>
2022	\$675,000

The remaining principal, in the amount of \$725,000, will be paid at stated maturity on December 1, 2023.

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

<u>Year</u>	<u>Amount</u>
2024	\$770,000

The remaining principal, in the amount of \$855,000, will be paid at stated maturity on December 1, 2025.

The term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

<u>Year</u>	<u>Amount</u>
2026	\$910,000
2027	965,000
2028	1,055,000
2029	1,110,000
2030	1,175,000

The remaining principal, in the amount of \$1,275,000, will be paid at stated maturity on December 1, 2031.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2013. The maturity amount of the bonds is \$290,000. For fiscal year 2006, \$15,922 was accreted on the capital appreciation bonds for a total outstanding bond value of the capital appreciation bonds of \$142,257 at fiscal year end.

FY 1999 Boiler Replacement Bonds - On May 21, 1999, the School District issued \$60,000 in unvoted general obligation bonds to replace a boiler. The bonds were issued for a ten year period with final maturity in fiscal year 2009. The bonds are being retired through the Bond Retirement debt service fund.

FY 1996 Elevator Construction Bonds - On August 25, 1995, the School District issued \$115,000 in unvoted general obligation bonds to acquire and install an elevator and wheelchair access ramp. The bonds were issued for a ten year period, with final maturity in fiscal year 2006. The Elevator Construction Bonds were fully retired in fiscal year 2006.

Compensated absences will be paid from the General Fund and the Food Service, Poverty Based Assistance, Title VI-B, Title I, and Title II-A special revenue funds.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 17 - Long-Term Obligations** (continued)

The School District's overall debt margin was \$380,146 with an unvoted debt margin of \$171,124 at June 30, 2006.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds				
	Serial	Term	Capital Appreciation	Interest	Total
2007	\$180,000	\$0	\$0	\$639,165	\$819,165
2008	210,000	0	0	635,265	845,265
2009	220,000	0	0	630,965	850,965
2010	230,000	0	0	626,063	856,063
2011	260,000	0	0	619,980	879,980
2012-2016	1,280,000	0	110,000	3,177,763	4,567,763
2017-2021	405,000	1,985,000	0	2,604,100	4,994,100
2022-2026	0	3,630,000	0	1,862,625	5,492,625
2027-2031	0	5,215,000	0	853,719	6,068,719
2032	0	1,275,000	0	27,094	1,302,094
	<u>\$2,785,000</u>	<u>\$12,105,000</u>	<u>\$110,000</u>	<u>\$11,676,739</u>	<u>\$26,676,739</u>

Fiscal Year Ending	Boiler Replacement	
	Principal	Interest
2007	\$6,686	\$907
2008	7,003	591
2009	7,335	259
Totals	<u>\$21,024</u>	<u>\$1,757</u>

**Note 18 - Set Asides**

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Note 18 - Set Asides** (continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$268,886)	(\$216,121)
Current Year Set Aside Requirement	310,833	310,833
Qualifying Expenditures	(238,803)	(8,172,672)
Balance June 30, 2006	\$0	\$0
Amount Carried Forward to Fiscal Year 2007	(\$196,856)	(\$8,077,960)

The School District had qualifying expenditures during the fiscal year that reduced the textbooks and capital improvement set aside amounts below zero. These amounts may be used to reduce the set aside requirements in future fiscal years.

**Note 19 - Interfund Transfers**

During fiscal year 2006, the General Fund made transfers to other governmental funds, in the amount of \$147,675, to set aside resources for the payment of termination benefits, and to subsidize the EMIS special revenue fund, and as debt payments came due. Other governmental funds made transfers to Ohio School Facilities Commission capital projects fund, in the amount of \$12,144,313, to subsidize the School District's portion of construction on the new buildings.

**Note 20 - Jointly Governed Organizations**

**A. North Central Ohio Computer Cooperative/Heartland Council of Governments**

The School District is a participant in the North Central Ohio Computer Cooperative/Heartland Council of Governments (NCOCC), which is a computer consortium. NCOCC is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NCOCC consists of the superintendent from each member school district. During fiscal year 2006, the School District paid \$58,161 to NCOCC for various services. Financial information can be obtained from North Central Ohio Computer Cooperative/Heartland Council of Governments, 27 Ryan Road, Shelby, Ohio 44875.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 20 - Jointly Governed Organizations** (continued)

**B. Pioneer Career and Technology Center**

The Pioneer Career and Technology Center (Center) is a distinct political subdivision of the State of Ohio which provides vocational education. The Center operates under the direction of a Board consisting of eleven appointed members from the fourteen participating school districts. 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 Pioneer Career and Technology Center, 27 Ryan Road, Shelby, Ohio 44875.

**C. North Central Ohio Special Education Regional Resource Center**

The North 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 forty-seven member board including the superintendent from the forty-two participating educational entities, one representative from a non-public school, one representative from Knox County Educational Service Center, one representative from Ashland University, and two parents of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representative on the Board. Financial information can be obtained from the Knox County Educational Service Center, 308 Martinsburg Road, Mt. Vernon, Ohio 43050.

**D. North Central Regional Professional Development Center**

The North Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Crawford, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed to create and sustain self-renewing learning communities to transform education in Ohio so that all learners can achieve their full potential. The Center is governed by a twenty-one member Board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Mid-Ohio Educational Service Center, 1495 West Longview Avenue, Suite 202, Mansfield, Ohio 44906.

**E. Metropolitan Educational Council**

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of one hundred sixty school districts, libraries, and related agencies in thirty-one counties. The purpose of the MEC is to obtain prices for quality merchandise and services commonly used by School Districts. The governing board of the MEC consists of one representative from each member School District. All member School Districts must pay all fees, charges, or other assessments as established by the MEC. Financial information can be obtained from the Metropolitan Educational Council, 2100 CityGate Drive, Columbus, Ohio 43219.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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**Note 21 - Insurance Pools**

**A. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as 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 participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Wyandot-Crawford Health Benefit Plan**

The Wyandot-Crawford Health Benefit Plan (Plan) is a public entity shared risk pool consisting of five school districts. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to employees of the participating school districts. Each participating school districts' superintendent is appointed to the Board of Directors which advises the Trustee, Huntington Trust Company, N.A., concerning aspects of the administration of the Plan.

Each school district decides which benefit program offered by the Plan will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Kevin Foltz, Account Manager, 229 Huber Village Boulevard, Westerville, Ohio 43081-5325.

**Note 22 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

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

**Note 23 - Subsequent Event**

On July 18, 2006, the School District issued general obligation bonds, in the amount of \$3,897,000, for constructing school buildings. The bonds have interest rates ranging from 4.0 to 5.5 percent over the twenty-five fiscal year life of the bonds. The bonds are due to mature in fiscal year 2032.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through the Ohio Department of Education</i>						
Food Donation	N/A	10.550	\$ -	\$ 39,693	\$ -	\$ 39,693
Child Nutrition Cluster:						
School Breakfast Program	044024-05PU-2005	10.553	5,237	-	5,237	-
	044024-05PU-2006		43,522	-	43,522	-
Total School Breakfast Program			48,759	-	48,759	-
National School Lunch Program	044024-LLP4-2005	10.555	29,264	-	29,264	-
	044024-LLP4-2006		172,706	-	172,706	-
Total National School Lunch Program			201,970	-	201,970	-
Total Child Nutrition Cluster			250,729	-	250,729	-
<b>Total U.S. Department of Agriculture</b>			<b>250,729</b>	<b>\$39,693</b>	<b>250,729</b>	<b>\$39,693</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	044024-6BSF-2005	84.027	43,605	-	68,006	-
	044024-6BSF-2006		453,703	-	453,379	-
Total Special Education Grants to States			497,308	-	521,385	-
Special Education Preschool Grants	044024-PGS1-2005	84.173	2,061	-	2,558	-
	044024-PGS1-2006		16,480	-	16,446	-
Total Special Education Preschool Grants			18,541	-	19,004	-
Total Special Education Cluster			515,849	-	540,389	-
Title I Grants to Local Educational Agencies	044024-C1S1-2005	84.010	67,808	-	80,466	-
	044024-C1S1-2006		424,337	-	417,952	-
Total Title I Grants to Local Educational Agencies			492,145	-	498,418	-
State Grants for Innovative Programs	044024-C2S1-2005	84.298	251	-	37	-
	044024-C2S1-2006		6,564	-	6,399	-
Total State Grants for Innovative Programs			6,815	-	6,436	-
Improving Teacher Quality State Grants	044024-TRS1-2005	84.367	25,062	-	14,983	-
	044024-TRS1-2006		102,741	-	98,152	-
Total Improving Teacher Quality State Grants			127,803	-	113,135	-
Safe and Drug-Free Schools and Communities State Grants	044024-DRS1-2005	84.186	3,483	-	3,642	-
	044024-DRS1-2006		1,826	-	1,826	-
Total Safe and Drug-Free Schools and Communities State Grants			5,309	-	5,468	-
Education Technology State Grants	044024-TJS1-2005	84.318	-	-	638	-
	044024-TJS1-2006		3,093	-	2,691	-
Total Education Technology State Grants			3,093	-	3,329	-
Comprehensive School Reform Demonstration	044024-RFCC-2005	84.332	34,676	-	24,607	-
Hurricane Education Recovery	044024-HR01-2006	84.938	2,000	-	2,000	-
<b>Total U.S. Department of Education</b>			<b>1,187,690</b>	<b>-</b>	<b>1,193,782</b>	<b>-</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	34-6400544	93.778	52,153	-	95,572	-
State Children's Insurance Program	34-6400544	93.767	472	-	472	-
<b>Total U.S. Department of Health and Human Services</b>			<b>52,625</b>	<b>-</b>	<b>96,044</b>	<b>-</b>
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>			<b>\$ 1,491,044</b>	<b>\$ 39,693</b>	<b>\$ 1,540,555</b>	<b>\$ 39,693</b>

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

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER AND FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.





**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galion City School District, Crawford County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 4, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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

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

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

**Betty Montgomery**  
Auditor of State

December 4, 2006



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Galion City School District, Crawford County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Galion City School District, Crawford County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

December 4, 2006

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies  CFDA #84.367 – Title II-A Improving Teacher Quality State Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

<b>Finding Number</b>	<b>2006-001</b>
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**Certification of Expenditures**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2006-001 (Continued)</b>
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There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty three percent of the transactions tested were not certified by the Treasurer prior to the commitment being incurred, nor were they certified using a then and now certificate. This procedure is not only required by Ohio law, but is a key internal control procedure in the disbursement process to assure purchase commitments receive prior approval, and to help reduce the possibility of the District's funds being over-expended or exceeding budgetary spending limitations.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification prior to the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The approved purchase commitments should be posted to the proper appropriation code to reduce the available appropriation. When prior certification is not possible, "then and now" certification should be used.

**GALION CITY SCHOOL DISTRICT  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2006-001 (Continued)</b>
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**Officials' Response**  
During fiscal year 2006, the School District had three Treasurers. The previous Treasurer resigned August 3, 2005, and an interim was hired from August 1, 2005, through December 31, 2005, and a new Treasurer was hired January 1, 2006. Forty four percent of the transactions that were not properly certified occurred during the period July 1, 2005 through December 31, 2005. The School District has now implemented a system of attaching "then and now" certificates or requesting Board approval for amounts over \$3,000 that were not properly certified.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None







**Mary Taylor, CPA**  
Auditor of State

**GALION CITY SCHOOL DISTRICT**

**CRAWFORD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 6, 2007**