



**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison - General Fund	15
Statement of Fiduciary Net Assets - Fiduciary Funds	16
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	17
Notes to the Basic Financial Statements	18
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	47

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Gorham Fayette Local School District
Fulton County
311 North Eagle St., P.O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District, Fulton County, Ohio (the District), as of and for the year ended June 30, 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 Gorham Fayette Local School District, Fulton 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 January 26, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 26, 2007

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The discussion and analysis of the financial performance of Gorham Fayette Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- The District issued \$4,885,000 in bond anticipatory notes to finance its share of costs related to the construction of a new school facility through the Ohio School Facility Commission. The total construction cost of the project is \$16,826,036 which includes \$13,629,089 to be funded by the State of Ohio. The District retired these notes in 2006 with the proceeds from the issuance of \$4,885,000 in general obligation bonds.
- The District refinanced \$1,600,000 of series 1998 general obligation bonds. The refinancing reduced the District's total debt service payments by \$336,048 over the next 17 years.
- In total, net assets increased \$1,226,294.
- General revenues accounted for \$5,959,511, or 89 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$770,731 or 11 percent of total revenues of \$6,730,242.
- The District's major funds included the General Fund, the Bond Retirement Fund, the Building Fund, and the Classroom Facilities Fund. The General Fund had \$4,576,167 in revenues and \$4,592,856 in expenditures. The General Fund's balance decreased \$16,689 from the prior fiscal year. The Bond Retirement Fund had \$6,750,578 in revenues and other financing sources and \$6,883,339 in expenditures and other uses. The Bond Retirement Fund's balance decreased \$132,761 from the prior fiscal year. The Building Fund had \$1,731,622 in revenues and other financing sources and \$229,777 in expenditures. The Building Fund's balance increased \$1,501,845 from the prior fiscal year. The Classroom Facilities Fund had \$4,281,145 in revenues and other financing sources and \$465,483 in expenditures. The Classroom Facilities Fund's balance increased \$3,815,662 from the prior fiscal year.
- The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

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

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to fiscal year 2005.

**Table 1
Net Assets
Governmental Activities**

	<u>2006</u>	<u>2005</u>
<u>Assets:</u>		
Current and Other Assets	\$21,384,904	\$3,043,315
Capital Assets, Net	3,756,249	3,190,735
Total Assets	<u>25,141,153</u>	<u>6,234,050</u>
<u>Liabilities:</u>		
Current and Other Liabilities	14,737,208	1,756,573
Long-Term Liabilities	7,052,965	2,352,791
Total Liabilities	<u>21,790,173</u>	<u>4,109,364</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,986,540	1,221,027
Restricted	5,584,596	365,634
Unrestricted	<u>(4,220,156)</u>	<u>538,025</u>
Total	<u>\$3,350,980</u>	<u>\$2,124,686</u>

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005. The increase in current assets, current and long-term liabilities was attributed to the school construction project.

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

	<u>2006</u>	<u>2005</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$299,884	\$299,485
Operating Grants, Contributions and Interest	467,135	404,948
Capital Grants and Contributions	3,712	
Total Program Revenues	<u>770,731</u>	<u>704,433</u>
General Revenues:		
Revenue in Lieu of Taxes	278,332	304,939
Property Taxes	1,480,211	1,410,009
Income Taxes	397,166	373,995
Grants and Entitlements	3,536,823	2,563,817
Investment Earnings	218,848	33,825
Net Decrease in Fair Value of Investments	(22,449)	
Gifts and Donations	2,230	5,650
Miscellaneous	68,350	67,105
Total General Revenues	<u>5,959,511</u>	<u>4,759,340</u>
Total Revenues	<u>6,730,242</u>	<u>5,463,773</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Expenses:

Instruction	2,905,375	2,711,201
Support Services:		
Pupils	286,072	348,517
Instructional Staff	284,549	322,090
Board of Education	108,148	73,524
Administration	443,812	432,681
Fiscal	173,507	178,733
Operation and Maintenance of Plant	490,628	392,846
Pupil Transportation	221,026	240,043
Central	28,520	30,924
Non-Instructional	180,258	183,705
Extracurricular Activities	185,311	194,285
Capital Outlay		111,078
Interest and Fiscal Charges	196,742	112,493
Total Expenses	<u>5,503,948</u>	<u>5,332,120</u>
Increase in Net Assets	<u>\$1,226,294</u>	<u>\$131,653</u>

The increase in revenues was primarily due to \$1,008,861 being received from the Ohio School Facilities Commission.

Governmental Activities

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Instruction	\$2,905,375	\$2,396,421	\$2,711,201	\$2,201,628
Support Services:				
Pupils	286,072	279,006	348,517	343,063
Instructional Staff	284,549	258,490	322,090	316,590
Board of Education	108,148	108,148	73,524	73,524
Administration	443,812	443,812	432,681	432,681
Fiscal	173,507	173,507	178,733	178,733
Operation and Maintenance of Plant	490,628	490,628	392,846	392,846
Pupil Transportation	221,026	221,026	240,043	235,869
Central	28,520	23,520	30,924	21,924
Non-Instructional	180,258	16,045	183,705	69,883
Extracurricular Activities	185,311	125,872	194,285	137,375
Capital Outlay			111,078	111,078
Interest and Fiscal Charges	196,742	196,742	112,493	112,493
Total Expenses	<u>\$5,503,948</u>	<u>\$4,733,217</u>	<u>\$5,332,120</u>	<u>\$4,627,687</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 86 percent. The remaining 14 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the Bond Retirement Fund, the Building Fund, and the Classroom Facilities Fund. There was no significant change in the General Fund revenues and expenditures. Bond Retirement Fund revenues and other sources increased by \$6,510,132. Expenditures and other sources increased by \$6,701,891. These changes were due the refinancing of \$1,600,000 in old bonded debt and the issuance of \$4,885,000 in new bonds. The Building and Classroom Facilities Funds were new in 2006 setup to account for activity related to the school facilities construction project. Note proceeds of \$4,885,000 and monies received from the Ohio School Facilities Commission were allocated to these funds.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed. There were no significant changes from original budgeted amounts in 2006.

Final budgeted revenues and other financing sources did not vary significantly from actual amounts. Final expenditures and other financing uses were budgeted at \$4,832,444 while actual expenditures and other financing uses were \$4,712,598. The \$119,846 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$3,756,249 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

Debt

At June 30, 2006, the District had \$6,770,062 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-eight year period, with final maturity on December 1, 2034. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2006, the District's overall legal debt margin was \$1,757,151, with an un-voted debt margin of \$38,215.

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

Current Issues

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

The District is currently operating in the second year of the state biennium budget. According to the 2006 Local District Report Card, 42.8 percent of District revenue sources is from local funds, 51.9 percent is from state funds and the remaining 5.3 percent is from federal funds. The total expenditure per pupil was calculated at \$10,246.

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

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

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

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

Contacting the District's Financial Management

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Net Assets
June 30, 2006**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	6,585,131
Materials and Supplies Inventory		15,874
Accrued Interest Receivable		1,340
Accounts Receivable		4,534
Intergovernmental Receivable		12,728,724
Prepaid Items		2,282
Taxes Receivable		1,739,171
Income Taxes Receivable		167,043
Deferred Charges on Bond Refunding		140,805
Capital Assets:		
Non-Depreciable Capital Assets		779,315
Depreciable Capital Assets, net		2,976,934
Total Assets		<u>25,141,153</u>
LIABILITIES:		
Accounts Payable		28,799
Accrued Wages and Benefits		315,346
Intergovernmental Payable		83,050
Deferred Revenue		14,310,013
Long-Term Liabilities:		
Due Within One Year		104,320
Due in More Than One Year		6,948,645
Total Liabilities		<u>21,790,173</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,986,540
Restricted for Debt Service		197,337
Restricted for Capital Outlay		5,318,822
Restricted for Other Purposes		68,437
Unrestricted		(4,220,156)
Total Net Assets	\$	<u><u>3,350,980</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2006**

	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 2,276,919	\$ 153,862	\$ 207,063	\$	(1,915,994)
Special	523,591		143,709		(379,882)
Vocational	77,773				(77,773)
Other	27,092		4,320		(22,772)
Support Services:					
Pupils	286,072		7,066		(279,006)
Instructional Staff	284,549		22,347	3,712	(258,490)
Board of Education	108,148				(108,148)
Administration	443,812				(443,812)
Fiscal	173,507				(173,507)
Operation and Maintenance of Plant	490,628				(490,628)
Pupil Transportation	221,026				(221,026)
Central	28,520		5,000		(23,520)
Operation of Non-Instructional Services	180,258	86,583	77,630		(16,045)
Extracurricular Activities	185,311	59,439			(125,872)
Debt Service:					
Interest and Fiscal Charges	196,742				(196,742)
Totals	\$ 5,503,948	\$ 299,884	\$ 467,135	\$ 3,712	(4,733,217)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					1,146,045
Property Taxes, Levied for Debt Service					323,683
Property Taxes, Levied for					10,483
Income Taxes					397,166
Grants and Entitlements not Restricted to Specific Programs					3,536,823
Gifts and Donations					2,230
Investment Earnings					218,848
Net Decrease in Fair Value of Investments					(22,449)
Payments in Lieu of Taxes					278,332
Miscellaneous					68,350
Total General Revenues and Transfers					5,959,511
Change in Net Assets					1,226,294
Net Assets Beginning of Year					2,124,686
Net Assets End of Year					\$ 3,350,980

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current Assets:						
Equity in Pooled Cash and Cash Equivalents	\$ 1,041,586	\$ 163,615	\$ 1,501,845	\$ 3,815,662	\$ 62,423	\$ 6,585,131
Materials and Supplies Inventory	12,702				3,172	15,874
Accrued Interest Receivable	1,340					1,340
Accounts Receivable	4,501				33	4,534
Interfund Receivable	1,772					1,772
Intergovernmental Receivable				12,702,286	26,438	12,728,724
Prepaid Items	2,282					2,282
Taxes Receivable	1,206,902	512,191			20,078	1,739,171
Income Taxes Receivable	167,043					167,043
Total Assets	\$ 2,438,128	\$ 675,806	\$ 1,501,845	\$ 16,517,948	\$ 112,144	\$ 21,245,871
Liabilities						
Current Liabilities:						
Accounts Payable	\$ 20,272				\$ 8,527	\$ 28,799
Accrued Wages and Benefits	307,175				8,171	315,346
Interfund Payable					1,772	1,772
Intergovernmental Payable	77,970				5,080	83,050
Matured Compensated Absences Payable	32,235					32,235
Deferred Revenue	1,187,222	\$ 493,526		\$ 12,702,286	19,897	14,402,931
	<u>1,624,874</u>	<u>493,526</u>		<u>12,702,286</u>	<u>43,447</u>	<u>14,864,133</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	22,065				15,687	37,752
Reserved for Inventory	12,702				3,172	15,874
Reserved for Prepaid Items	2,282					2,282
Reserved for Property Taxes	48,265	18,665			821	67,751
Unreserved, Undesignated, Reported in:						
General Fund	727,940					727,940
Special Revenue Funds					47,702	47,702
Debt Service Funds		163,615				163,615
Capital Projects Funds			\$ 1,501,845	3,815,662	1,315	5,318,822
Total Fund Balances	813,254	182,280	1,501,845	3,815,662	68,697	6,381,738
Total Liabilities and Fund Balances	\$ 2,438,128	\$ 675,806	\$ 1,501,845	\$ 16,517,948	\$ 112,144	\$ 21,245,871

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006**

Total Governmental Fund Balances	\$	6,381,738
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		3,756,249
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		92,918
Unamortized Bonds Costs		140,805
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	\$	(6,770,062)
Compensated Absences Payable		(250,668)
		<u>(7,020,730)</u>
Net Assets of Governmental Activities	\$	<u><u>3,350,980</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006**

	General Fund	Bond Retirement Fund	Building Fund	Classroom Facilities Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property and Other Local Taxes	\$ 1,140,180	\$ 317,095			\$ 10,068	\$ 1,467,343
Income Tax	393,461					393,461
Intergovernmental	2,484,891	49,856		1,008,861	463,422	4,007,030
Interest	77,212		43,569	97,786	281	218,848
Net Decrease in Fair Value of Investments				(22,449)		(22,449)
Tuition and Fees	134,524					134,524
Rent	995					995
Extracurricular Activities					77,782	77,782
Gifts and Donations	300				1,930	2,230
Customer Sales and Services					86,583	86,583
Payments in Lieu of Taxes	278,332					278,332
Miscellaneous	66,272				2,078	68,350
Total Revenues	4,576,167	366,951	43,569	1,084,198	642,144	6,713,029
EXPENDITURES:						
Current:						
Instruction:						
Regular	2,088,185				180,422	2,268,607
Special	376,746				144,423	521,169
Vocational	73,376					73,376
Other	24,189				2,903	27,092
Support Services:						
Pupils	278,645				7,634	286,279
Instructional Staff	251,312				30,552	281,864
Board of Education	108,148					108,148
Administration	440,692					440,692
Fiscal	167,522	6,911			6,204	180,637
Operation and Maintenance of Plant	397,330				314	397,644
Pupil Transportation	216,938					216,938
Central	27,397				1,123	28,520
Operation of Non-Instructional Services	2,300				178,743	181,043
Extracurricular Activities	122,181				63,253	185,434
Capital Outlay	17,895		229,777	465,483		713,155
Debt Service:						
Principal		5,210,000				5,210,000
Interest		167,801				167,801
Refunding Bond Issuance Costs		56,626				56,626
Total Expenditures	4,592,856	5,441,338	229,777	465,483	615,571	11,345,025
Excess of Revenues Over (Under) Expenditures	(16,689)	(5,074,387)	(186,208)	618,715	26,573	(4,631,996)
OTHER FINANCING SOURCES AND USES:						
Premium on Refunding Bonds Issued		23,627				23,627
Refunding Bonds Issued		1,475,000				1,475,000
General Obligation Bonds Issued		4,885,000				4,885,000
Notes Issued			1,688,053	3,196,947		4,885,000
Payment to Bond Escrow Agent		(1,442,001)				(1,442,001)
Total Other Financing Sources and Uses		4,941,626	1,688,053	3,196,947		9,826,626
Net Change in Fund Balances	(16,689)	(132,761)	1,501,845	3,815,662	26,573	5,194,630
Fund Balance at Beginning of Year	829,943	315,041			42,124	1,187,108
Fund Balance at End of Year	\$ 813,254	\$ 182,280	\$ 1,501,845	\$ 3,815,662	\$ 68,697	\$ 6,381,738

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	5,194,630
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.</p>		
Capital Outlay - Non-Depreciable Capital Assets	\$ 695,215	
Capital Outlay - Depreciable Capital Assets	40,276	
Depreciation	<u>(169,977)</u>	565,514
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	640	
Delinquent Property Taxes	12,868	
Income Taxes	<u>3,705</u>	17,213
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		6,652,001
Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.		(28,941)
Proceeds from bonds and notes.		(11,245,000)
<p>Premiums and bond issuance costs on debt issues are reported as revenues and expenditures in the Governmental funds, however, they are amortized over the life of the issue on the statement of activities:</p>		
Premium on the issuance of bonds	(23,627)	
Bond issuance costs	<u>56,626</u>	32,999
<p>Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:</p>		
Intergovernmental Payable	33,745	
Compensated Absences Payable	<u>4,133</u>	<u>37,878</u>
Change in Net Assets of Governmental Activities	\$	<u><u>1,226,294</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,127,037	\$ 1,127,037	\$ 1,147,279	\$ 20,242
Income Tax	375,000	375,000	381,503	6,503
Intergovernmental	2,552,000	2,487,718	2,484,891	(2,827)
Interest	40,000	70,000	76,682	6,682
Tuition and Fees	138,000	138,000	134,446	(3,554)
Rent	1,500	1,500	995	(505)
Gifts and Donations	25,000	1,000	300	(700)
Customer Sales and Services	500	500		(500)
Payments in Lieu of Taxes		278,332	278,332	
Miscellaneous	313,632	60,300	60,606	306
Total Revenues	<u>4,572,669</u>	<u>4,539,387</u>	<u>4,565,034</u>	<u>25,647</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,281,103	2,206,481	2,162,967	43,514
Special	381,054	387,117	379,191	7,926
Vocational	79,765	80,115	77,582	2,533
Other	29,855	30,555	24,115	6,440
Support Services:				
Pupils	278,196	286,574	282,340	4,234
Instructional Staff	283,352	272,782	266,325	6,457
Board of Education	87,042	124,042	119,453	4,589
Administration	449,767	448,337	443,603	4,734
Fiscal	180,875	171,675	166,601	5,074
Operation and Maintenance of Plant	424,441	422,051	402,970	19,081
Pupil Transportation	221,493	225,196	216,681	8,515
Central	37,550	29,550	27,403	2,147
Operation of Non-Instructional Services	2,500	2,500	2,300	200
Extracurricular Activities	123,400	124,180	121,383	2,797
Capital Outlay	30,500	19,500	17,895	1,605
Total Expenditures	<u>4,890,893</u>	<u>4,830,655</u>	<u>4,710,809</u>	<u>119,846</u>
Excess of Expenditures Over Revenues	<u>(318,224)</u>	<u>(291,268)</u>	<u>(145,775)</u>	<u>145,493</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets	250	250		(250)
Refund of Prior Year Expenditures	500	500	2,460	1,960
Refund of Prior Year Receipts		(17)	(17)	
Advances Out	(5,000)	(1,772)	(1,772)	
Total Other Financing Sources and Uses	<u>(4,250)</u>	<u>(1,039)</u>	<u>671</u>	<u>1,710</u>
Net Change in Fund Balances	<u>(322,474)</u>	<u>(292,307)</u>	<u>(145,104)</u>	<u>147,203</u>
Fund Balance at Beginning of Year	1,124,281	1,124,281	1,124,281	
Prior Year Encumbrances Appropriated	17,025	17,025	17,025	
Fund Balance at End of Year	<u>\$ 818,832</u>	<u>\$ 848,999</u>	<u>\$ 996,202</u>	<u>\$ 147,203</u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>15,798</u>	\$ <u>23,363</u>
Total Assets	<u>15,798</u>	<u>23,363</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u> </u>	<u>23,363</u>
Total Liabilities	<u> </u>	<u>23,363</u>
Net Assets		
Held in Trust for Scholarships	<u>15,798</u>	<u> </u>
Total Net Assets	<u>\$ <u>15,798</u></u>	<u>\$ <u> </u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>631</u>
Total Additions	<u>631</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>150</u>
Total Deductions	<u>150</u>
Change in Net Assets	481
Net Assets Beginning of Year	<u>15,317</u>
Net Assets End of Year	<u>\$ <u>15,798</u></u>

See Accompanying Notes to the Basic Financial Statements

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Gorham Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Gorham Fayette Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 17 non-certified personnel and 45 certified full-time teaching personnel who provide services to 503 students and other community members.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Building Fund – The Building Fund is used to account for the revenues and expenditures related to the improvements of school buildings.

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

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

F. Cash and Investments

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

During fiscal year 2006, investments were limited to federal agency securities, commercial paper, and Star Ohio. Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$77,212, which includes \$29,692 assigned from other funds. Interest in the amount of \$141,636 was credited to other District funds.

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

M. Fund Balance Reserves

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

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

N. Interfund Assets/Liabilities

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

O. Prepaid Items

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

P. Estimates

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

Q. Pass-Through Grants

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2006, the District has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation." GASB Statement No. 46 defines enabling legislature and specifies how new assets should be reported in the financial statements when there are changes in legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

4. ACCOUNTABILITY

At June 30, 2006, the Food Service and the Title I funds (special revenue funds) had deficit fund balances, in the amounts of \$1,195 and \$83, resulting 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.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

5. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$16,689)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	183,874
Accrued FY 2006, Not Yet Received in Cash	(192,564)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(496,284)
Accrued FY 2006, Not Yet Paid in Cash	422,668
Advances Net	(1,772)
Encumbrances Outstanding at Year End (Budget Basis)	(44,337)
Budget Basis	<u><u>(\$145,104)</u></u>

6. DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

6. DEPOSITS AND INVESTMENTS – (Continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Commercial paper and bankers acceptances if trading requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,145,268 of the District's bank balance of \$2,385,792 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

6. DEPOSITS AND INVESTMENTS – (Continued)

Investments

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

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>
Federal Home Loan Mortgage Association (FHLMC) Notes	\$495,315	\$495,315		
Federal Home Loan Bank (FHLB) Notes	1,482,180		1,482,180	
Federal Home Loan Bank (FHLB) Bonds	2,200,470		486,720	1,713,750
General Electric Capital Corporation Notes	200,548	200,548		
STAR Ohio	55,428	55,428		
Total Investments	<u>\$4,433,941</u>	<u>\$751,291</u>	<u>\$1,968,900</u>	<u>\$1,713,750</u>

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

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

<u>Investment Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
Federal Home Loan Mortgage Association (FHLMC)	Aaa	AAA
Federal Home Loan Bank (FHLB)	Aaa	AAA
General Electric Capital Corporation	Aaa	AAA
STAR Ohio		AAAm

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

6. DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal Home Loan Mortgage Association Notes, Federal Home Loan Bank Bonds, General Electric Capital Corporation Notes, and Star Ohio represent 11%, 33%, 50%, 5%, and 1%, respectively, of the District's total investments

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 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 real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fulton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 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 delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

7. PROPERTY TAXES – (Continued)

The amount available as an advance at June 30, 2006, was \$48,265 in the General Fund, \$18,665 in the Bond Retirement Fund and \$821 in the Maintenance Fund (Other Governmental Funds). The amount available as an advance at June 30, 2005, was \$55,364 in the General Fund and \$11,032 in the Bond Retirement Fund.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$30,989,740	74%	\$30,105,450	79%
Industrial/Commercial	3,690,790	9%	3,740,840	10%
Public Utility	2,122,440	5%	2,035,080	5%
Tangible Personal	5,111,528	12%	2,333,769	6%
Total Assessed Value	\$41,914,498	100%	\$38,215,139	100%
Tax rate per \$1,000 of assessed valuation	\$56.66		\$62.76	

8. INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2006, the District recorded income tax revenue of \$393,461 in the General Fund, of which \$167,043 is recorded as a receivable at June 30, 2006.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

9. RECEIVABLES

Receivables at June 30, 2006, consisted of property, income tax, intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

	Amount
Accounts Receivable:	
General Fund	
Tuition and Fees	\$78
Miscellaneous	4,423
Total General Fund	4,501
All Other Governmental Funds	
Extracurricular Activities	18
Customer Sales and Service	15
Total Accounts Receivable	\$4,534
Intergovernmental Receivable:	
Classroom Facilities Fund	
School Facilities Construction Grant	\$12,702,286
All Other Governmental Funds	
State Grant Monies:	
Public Preschool Grant	\$12,929
Ohio Reads Grant	3,650
Federal Grant Monies	
Title I Grant	\$1,785
Title VI Grant	566
Title II-A Grant	4,213
Rural Education Achievement Grant	3,295
Total All Other Government Funds	26,438
Total Intergovernmental Receivable	\$12,728,724

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

10. CAPITAL ASSETS

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

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Nondepreciable Capital Assets				
Construction in Progress		\$465,489		\$465,489
Land	\$84,100	229,726		313,826
Total Nondepreciable Capital Assets	<u>84,100</u>	<u>695,215</u>		<u>779,315</u>
Depreciable Capital Assets				
Land Improvements	78,356	\$17,203		95,559
Buildings and Building Improvements	4,422,269			4,422,269
Furniture, Fixtures, and Equipment	786,450	23,073		809,523
Vehicles	387,023			387,023
Books	335,832			335,832
Total Depreciable Capital Assets	<u>6,009,930</u>	<u>40,276</u>		<u>6,050,206</u>
Less Accumulated Depreciation				
Land Improvements	67,499	502		68,001
Buildings and Building Improvements	1,762,654	108,103		1,870,757
Furniture, Fixtures, and Equipment	516,310	34,821		551,131
Vehicles	293,066	9,624		302,690
Books	263,766	16,927		280,693
Total Accumulated Depreciation	<u>2,903,295</u>	<u>169,977</u>		<u>3,073,272</u>
Depreciable Capital Assets, Net	<u>3,106,635</u>	<u>(129,701)</u>		<u>2,976,934</u>
Governmental Activities Capital Assets, Net	<u>\$3,190,735</u>	<u>\$565,514</u>		<u>\$3,756,249</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$20,126
Special	388
Vocational	136
Support Services:	
Instructional Staff	32,608
Administration	1,797
Fiscal	227
Operation and Maintenance of Plant	8,590
Pupil Transportation	9,485
Non-Instructional Services	1,177
Extracurricular	2,988
Capital Outlay	92,455
Total Depreciation Expense	<u>\$169,977</u>

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

11. RISK MANAGEMENT

A. Risk Pool Membership

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

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

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

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003 (the latest information available):

	<u>2004</u>	<u>2003</u>
Assets	\$850,065	\$260,932
Liabilities	<u>\$509,558</u>	<u>\$172,784</u>
Members' Equity	<u>\$340,507</u>	<u>\$88,148</u>

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

B. Employee Insurance Benefits Program

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

C. Workers' Compensation Group Rating Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 16). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

11. RISK MANAGEMENT – (Continued)

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The District paid \$480 in premiums during the 2006 fiscal year.

12. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$65,253, \$63,224, and \$53,371, respectively. The full amount has been contributed for fiscal years 2006, 2005, and 2004.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS 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 stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

12. DEFINED PENSION BENEFIT PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan (CP). The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The CP offers features of both the DB Plan and the DC Plan. 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 DB Plan. DC Plan and CP members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC Plan 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 balances from the existing DB Plan into the DC Plan or the CP. This option expired on December 31, 2001.

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$314,272, \$311,889, and \$302,971, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004.

C. Social Security System

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

13. POSTEMPLOYMENT BENEFITS

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

13. POSTEMPLOYMENT BENEFITS – (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$24,175 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio 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 retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$28,962.

Health care benefits are financed on a pay-as-you-go basis. Net Health care costs for the year ending June 30, 2006, were \$158,751,207. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. 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 59,492 participants eligible to receive health care benefits.

14. COMPENSATED ABSENCES

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

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

At June 30, 2006, the current amount of unpaid compensated absences in all funds was \$51,555, and the long-term amount was \$231,348.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

15. NOTE DEBT

On September 20, 2005, the District issued notes in the amount of \$4,885,000 in anticipation of the issuance of bonds. The proceeds were used for the purpose of paying the local share of school construction under the Extreme Environmental Contamination Program; constructing a school building and related facilities; furnishing and equipping the same; improving the site thereof; and acquiring land and interest in land. The notes bore an annual interest rate at 3.52 percent. These notes were retired on March 21, 2006, when the District issued general obligation bonds.

16. LONG-TERM OBLIGATIONS

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	Balance at 6/30/2005	Increase	Decrease	Balance at 6/30/2006	Amount Due In One Year
General Obligation Bonds Series 1998:					
Current Interest Bonds	\$ 1,945,000		\$ 1,675,000	\$ 270,000	\$ 85,000
Capital Appreciation Bonds	95,316	\$ 19,493		114,809	
Total G.O.B. Series 1998	2,040,316	19,493	1,675,000	384,809	85,000
School Improvement Refunding Bonds Series 2005:					
Current Interest Bonds		1,475,000		1,475,000	
Unamortized Premium		23,627	1,244	22,383	1,244
Total S. I. R. B. Series 2005		1,498,627	1,244	1,497,383	1,244
General Obligation Bonds Series 2006:					
Current Interest Bonds		4,795,000		4,795,000	
Capital Appreciation Bonds		92,870		92,870	
Total G.O.B. Series 2006		4,887,870		4,887,870	
Compensated Absences	312,475	282,903	312,475	282,903	18,076
Total Long-Term Debt	\$ 2,352,791	\$ 6,688,893	\$ 1,988,719	\$ 7,052,965	\$ 104,320

General Obligation Bonds Series 1998

Proceeds from the outstanding bonds were used for the purpose of renovating, repairing, and improving existing school buildings and facilities, including improving access for the disabled, furnishing and equipping the same. These bonds were issued on February 19, 1998. The bonds consisted of \$2,380,000 in current interest bonds (\$880,000 issued as serial bonds and \$1,500,000 issued as term bonds) and \$24,708 in capital appreciation bonds.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

16. LONG-TERM OBLIGATIONS – (Continued)

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2006	85,000	4.35%
2007	90,000	4.40%
2008	95,000	4.45%

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

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

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

The value of the capital appreciation bonds reported at June 30, 2006, was \$114,809. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$90,101 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

School Improvement Refunding Bonds Series 2005

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

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

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

16. LONG-TERM OBLIGATIONS – (Continued)

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

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

General Obligation Bonds Series 2006

Proceeds from the outstanding bonds were used to retire outstanding notes issued for the purpose of paying the local share of school construction under the Extreme Environmental Contamination Program; constructing a school building and related facilities; furnishing and equipping the same; improving the site thereof; and acquiring land and interests in land. These bonds were issued on March 21, 2006. The bonds consisted of \$4,795,000 in current interest bonds (\$845,000 issued as serial bonds and \$3,950,000 issued as term bonds) and \$90,000 in capital appreciation bonds.

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2008	\$110,000	3.75%
2009	110,000	3.75%
2010	115,000	3.75%
2011	120,000	3.75%
2012	125,000	3.75%
2013	130,000	4.00%
2014	135,000	4.00%

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

16. LONG-TERM OBLIGATIONS – (Continued)

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2017	\$140,000
2018	145,000
2019	150,000
2020	155,000

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2021	\$165,000
2022	170,000

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2023	\$175,000
2024	185,000
2025	195,000
2026	200,000

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

16. LONG-TERM OBLIGATIONS – (Continued)

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2027	\$210,000
2028	220,000
2029	230,000
2030	240,000
2031	250,000
2032	260,000
2033	275,000
2034	285,000
2035	300,000

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

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value at Maturity</u>
2015	\$47,778	\$140,000
2016	42,222	140,000

The value of the capital appreciation bonds reported at June 30, 2006, was \$92,870. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$2,870 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

Total expenditures for interest for the above debt for the period ended June 30, 2006, was \$179,053.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

16. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$86,244	\$318,737	\$404,981
2008	201,243	273,080	474,323
2009	206,244	264,837	471,081
2010	261,813	315,911	577,724
2011	159,076	317,243	476,319
2012-2016	820,494	1,429,054	2,249,548
2017-2021	1,386,218	961,483	2,347,701
2022-2026	1,378,730	648,058	2,026,788
2027-2031	1,150,000	390,163	1,540,163
2032-2035	1,120,000	104,878	1,224,878
Total	<u>\$6,770,062</u>	<u>\$5,023,444</u>	<u>\$11,793,506</u>

17. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2005	(\$67,135)	
Current Year Set-aside Requirement	73,193	\$73,193
Qualifying Disbursements	(67,322)	(109,252)
Total	<u>(\$61,264)</u>	<u>(\$36,059)</u>
Set Aside Balance Carried Forward to FY2007	<u>(\$61,264)</u>	

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

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

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

18. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$39,330. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

C. Four County Career Center

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

19. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$612,387. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

19. GROUP PURCHASING POOLS – (Continued)

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$524 to the WCGRP to cover the costs of administering the program.

20. RELATED ORGANIZATION

Normal Memorial Library

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

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

21. INTERFUND ASSETS/LIABILITIES

The General Fund advanced \$1,772 to the Title II-A Fund (an Other Nonmajor Governmental Fund). The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

22. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**GORHAM FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY**

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

22. CONTINGENCIES – (Continued)

B. Litigation

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

22. CONTRACTUAL COMMITMENTS

As of June 30, 2006, the District had a contractual purchase commitment with the Buehrer Group for \$539,291 for architectural services on the new school facilities construction project.

23. SUBSEQUENT EVENTS

In December 2006, bids were taken by the Project Construction Manager for the new school facility construction work, and the lowest base bids were awarded by the Board, subject to final approval by the Ohio School Facilities Commission.



Mary Taylor, CPA

Auditor of State

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

Gorham Fayette Local School District
Fulton County
311 North Eagle St., P.O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gorham Fayette Local School District, Fulton County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 26, 2007. 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 opinion 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 January 26, 2007, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated January 26, 2007, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 26, 2007



Mary Taylor, CPA
Auditor of State

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT

FULTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2007**