



**Auditor of State  
Betty Montgomery**



**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Wellston City School District  
Jackson County  
1 East Broadway Street  
Wellston, Ohio 45692

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 Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

**Betty Montgomery**  
Auditor of State

February 25, 2005

## Wellston City School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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The discussion and analysis of the Wellston City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **FINANCIAL HIGHLIGHTS**

#### **Key financial highlights for the fiscal year 2004 are as follows:**

- Net assets of governmental activities decreased \$1,171,810.
- General revenues accounted for \$12,054,969 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,018,843, 25 percent of total revenues of \$16,073,812.
- Total assets of governmental activities decreased \$1,269,337 primarily due to the depreciation of capital assets and reductions in cash and cash equivalents.
- The School District had \$17,245,622 in expenses related to governmental activities; only \$4,018,843 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$12,054,969 provided for all of these activities.
- The School District has two major funds; the General Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$12,349,426 in revenues and \$12,643,865 in expenditures. The General Fund's balance increased \$17,015. The Classroom Facilities Capital Projects Fund had \$76,329 in revenues and \$795,583 in expenditures. The Classroom Facilities Capital Projects Fund's balance decreased \$719,254.

### **USING THIS ANNUAL FINANCIAL REPORT**

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

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

#### ***Reporting the School District as a Whole***

##### *Statement of Net Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## Wellston City School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, debt service, and extracurricular activities.

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

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, and the Classroom Facilities Capital Projects Fund.

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

### **THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets for 2004 compared to 2003.



**Wellston City School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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**Table I  
Net Assets**

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current and Other Assets	\$12,374,813	\$13,066,232
Capital Assets	<u>36,425,266</u>	<u>37,003,184</u>
Total Assets	<u>48,800,079</u>	<u>50,069,416</u>
<b>Liabilities</b>		
Long-Term Liabilities	4,187,002	4,046,100
Other Liabilities	<u>4,985,295</u>	<u>5,223,724</u>
Total Liabilities	<u>9,172,297</u>	<u>9,269,824</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	33,059,078	33,693,184
Restricted	3,581,075	3,859,218
Unrestricted	<u>2,987,629</u>	<u>3,247,190</u>
Total Net Assets	<u>\$39,627,782</u>	<u>\$40,799,592</u>

Total assets decreased \$1,269,337. The majority of the decrease was due to a reductions in cash and prepaid assets, as well as, the depreciation of capital assets.

Total liabilities decreased \$97,527. This decrease is due to the completion of the School Districts Classroom Facilities construction projects and the corresponding decreases in both contracts and retainage payables, and decreases in intergovernmental payables. These decreases were, however, offset by increases in accounts payables, accrued wages, deferred revenues, and capital leases.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, and comparisons to fiscal year 2003.

# Wellston City School District, Ohio

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

**Table 2**  
**Changes in Net Assets**

	Governmental Activities	
	2004	2003
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$540,484	\$412,778
Operating Grants, Contributions and Interest	3,356,353	2,961,908
Capital Grants and Contributions	122,006	88,491
	<u>4,018,843</u>	<u>3,463,177</u>
General Revenue		
Property Taxes	2,857,930	2,701,810
Grants and Entitlements	9,066,689	8,341,924
Investment Earnings	60,388	85,994
Donations	0	891
Miscellaneous	69,962	216,709
	<u>12,054,969</u>	<u>11,347,328</u>
Total Revenues	<u>16,073,812</u>	<u>14,810,505</u>
<b>Program Expenses</b>		
Instruction		
Regular	6,844,390	6,266,159
Special	2,519,122	2,060,346
Vocational	306,219	286,886
Adult/Continuing	19,140	4,631
Support Services		
Pupils	613,465	650,596
Instructional Staff	1,218,682	1,087,079
Board of Education	326,011	351,075
Administration	1,169,332	1,059,020
Fiscal	383,604	344,326
Operation and Maintenance of Plant	1,313,609	769,905
Pupil Transportation	936,446	633,620
Central	89,041	93,043
Operation of Non-Instructional Services	28,462	98,290
Food Service Operations	792,347	267,942
Extracurricular Activities	510,976	270,899
Interest and Fiscal Charges	174,776	168,808
Total Expenses	<u>17,245,622</u>	<u>14,412,625</u>
Increase (Decrease ) in Net Assets	<u>(\$1,171,810)</u>	<u>\$397,880</u>

While the School District was able to maintain a stable financial position from fiscal year 1994 through fiscal year 2003, the economic pressures of academic requirements has outpaced available resources.

The passage of House Bill 95 has had a detrimental affect on the School District. While the District operates a very tight budget, revenue sources did not keep pace with expenditures in fiscal year 2004.

In addition, the passage of any future levies would cause the District to lose State funding through GAP Aid.

**Wellston City School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

Net assets of the School District's governmental activities decreased by \$1,171,810 in fiscal year 2004. Program revenues of \$4,018,843 and general revenue of \$12,054,969 did not offset total governmental expenses of \$17,245,622. Program revenues supported 23 percent of total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 99 percent of total governmental revenue. Grants and entitlements, alone, represent 75 percent of revenues. Interest income, and miscellaneous revenue account for the remaining 1 percent.

Instruction comprises approximately 56 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 35 percent. The remaining 9 percent of program expenses is used for other obligations of the School District such as non-instructional service, food service operations, extracurricular activities, and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3  
Governmental Activities**

	2004 Total Cost of Services	2004 Net Cost of Services	2003 Total Cost of Services	2003 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$6,844,390	\$5,557,378	\$6,266,159	\$5,339,333
Special	2,519,122	1,526,809	2,060,346	1,020,051
Vocational	306,219	248,447	286,886	286,886
Adult/Continuing	19,140	19,140	4,631	4,631
Support Services:				
Pupil	613,465	530,413	650,596	542,841
Instructional Staff	1,218,682	941,774	1,087,079	746,023
Board of Education	326,011	202,596	351,075	349,765
Administration	1,169,332	979,697	1,059,020	959,165
Fiscal	383,604	350,132	344,326	336,230
Operation and Maintenance of Plant	1,313,609	1,239,072	769,905	720,328
Pupil Transportation	936,446	860,758	633,620	534,225
Central	89,041	83,516	93,043	91,723
Operation of Non-Instructional Services	28,462	(25,259)	98,290	51,826
Food Service Operations	792,347	143,248	267,942	(346,593)
Extracurricular Activities	510,976	394,282	270,899	144,206
Interest and Fiscal Charges	174,776	174,776	168,808	168,808
<b>Totals</b>	<b>\$17,245,622</b>	<b>\$13,226,779</b>	<b>\$14,412,625</b>	<b>\$10,949,448</b>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 77 percent of instruction activities are supported through taxes and other general revenues.

**THE SCHOOL DISTRICT FUNDS**

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,932,051 and expenditures of \$16,690,405.

**Wellston City School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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**General Fund Budgeting Highlights**

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

During the course of fiscal 2004, the School District amended its General Fund appropriations although none were significant. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis revenue was \$12,448,008, above original estimates of \$12,114,710. This \$333,298 difference, was due to deflated intergovernmental estimates, based on the State's budget reduction.

The School District's ending unobligated general fund balance was \$4,297,800.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2004, the School District had \$36,425,266 invested in land, buildings, furniture and equipment, vehicles, and textbooks. Table 4 shows fiscal year 2004 balances compared to 2003.

**Table 4  
Capital Assets at June 30  
(Net of Depreciation)**

	<u>Government Activities</u>	
	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$313,189	\$313,189
Buildings and Improvements	32,323,300	33,075,357
Furniture and Equipment	2,314,499	1,997,258
Vehicles	413,869	543,264
Textbooks	<u>1,060,409</u>	<u>1,074,116</u>
<b>Totals</b>	<u><u>\$36,425,266</u></u>	<u><u>\$37,003,184</u></u>

For addition information on capital assets, see note 10 to the basic financial statements.

**Debt**

At June 30, 2004, the School District had general obligation bonds outstanding of \$3,200,000 and \$166,188 in capital leases. The lease is for fitness equipment. For additional information on debt, see notes 14 and 15 to the basic financial statements.

## **Wellston City School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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### **CURRENT ISSUES**

The financial future of the School District is not without its challenges. These challenges are external and internal in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes and State subsidies to fund its operations. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes or State subsidies. Thus management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues from what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (nearly 80 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a slight decline in student enrollment in recent years and while State revenue growth has shifted toward school districts with low property tax wealth, declining enrollment has served to somewhat offset any increase in State funding.

Although higher per-pupil funding has helped the School District lessen the impact of required budget cuts, much of the positive impact has been offset by other negative financial factors that occurred in the past year (decreasing enrollment, lower interest earnings, higher insurance costs, and State budget cuts in education). In the long run, the fact is that as long as the State avoids the complete systematic overhaul the Supreme Court ordered in its initial ruling, all schools in Ohio will be faced with the same problem in the future – either increasing its revenues (passing levies) or decreasing its expenditures (making budget cuts).

As the preceding information shows, the School District depends upon its taxpayers. Although the Wellston City School District has tightened spending to better bring expenditures in line with revenues, and carefully watched financial planning, this must continue if the School District hopes to remain on firm financial footing.

### **CONTRACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brenda Hill, Treasurer at Wellston City School District, One East Broadway Street, Wellston, Ohio 45692.

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**Wellston City School District, Ohio**

*Statement of Net Assets*

*June 30, 2004*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,714,383
Cash and Cash Equivalents in Segregated Accounts	411,795
Property Taxes Receivable	3,218,246
Accounts Receivable	11,849
Intergovernmental Receivable	934,317
Prepaid Items	66,673
Materials and Supplies Inventory	17,550
Nondepreciable Capital Assets	313,189
Depreciable Capital Assets, Net	<u>36,112,077</u>
<i>Total Assets</i>	<u>48,800,079</u>
<b>Liabilities</b>	
Accounts Payable	299,325
Contracts Payable	132,915
Accrued Wages and Benefits Payable	1,237,937
Retainage Payable	286,986
Accrued Interest Payable	13,437
Intergovernmental Payable	518,753
Deferred Revenue	2,456,663
Vacation Benefits Payable	39,279
Long-Term Liabilities:	
Due within One Year	261,659
Due in More than One Year	<u>3,925,343</u>
<i>Total Liabilities</i>	<u>9,172,297</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	33,059,078
Restricted for:	
Budget Stabilization	56,688
Bus Purchases	420,574
Other Purposes	2,098,875
Debt Service	506,381
Capital Projects	498,557
Unrestricted	<u>2,987,629</u>
<i>Total Net Assets</i>	<u><u>\$39,627,782</u></u>

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2004

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$6,844,390	\$166,635	\$1,079,677	\$40,700	(\$5,557,378)
Special	2,519,122	4,113	988,200	0	(1,526,809)
Vocational	306,219	0	57,772	0	(248,447)
Adult/Continuing	19,140	0	0	0	(19,140)
Support Services:					
Pupils	613,465	0	83,052	0	(530,413)
Instructional Staff	1,218,682	1,040	275,868	0	(941,774)
Board of Education	326,011	0	123,415	0	(202,596)
Administration	1,169,332	0	189,635	0	(979,697)
Fiscal	383,604	0	33,472	0	(350,132)
Operation and Maintenance of Plant	1,313,609	8,182	7,772	58,583	(1,239,072)
Pupil Transportation	936,446	11,874	41,091	22,723	(860,758)
Central	89,041	0	5,525	0	(83,516)
Operation of Non-Instructional Services:					
Food Service Operations	792,347	252,993	396,106	0	(143,248)
Community Services	28,462	0	53,721	0	25,259
Extracurricular Activities	510,976	95,647	21,047	0	(394,282)
Interest and Fiscal Charges	174,776	0	0	0	(174,776)
<b>Totals</b>	<b>\$17,245,622</b>	<b>\$540,484</b>	<b>\$3,356,353</b>	<b>\$122,006</b>	<b>(13,226,779)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	2,207,708
Debt Service	346,163
Capital Projects	253,999
Other Purposes	50,060
Grants and Entitlements not Restricted to Specific Programs	9,066,689
Investment Earnings	60,388
Miscellaneous	69,962
<b>Total General Revenues</b>	<b>12,054,969</b>
<b>Change in Net Assets</b>	<b>(1,171,810)</b>
<b>Net Assets at Beginning of Year</b>	<b>40,799,592</b>
<b>Net Assets at End of Year</b>	<b>\$39,627,782</b>

See accompanying notes to the general purpose external financial statements



**Wellston City School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,162,631	\$53,325	\$3,077,853	\$7,293,809
Cash and Cash Equivalents in Segregated Accounts	0	411,795	0	411,795
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	420,574	0	0	420,574
Receivables:				
Taxes	2,571,961	0	646,285	3,218,246
Accounts	11,716	0	133	11,849
Intergovernmental	76,901	234,769	622,647	934,317
Interfund	519,628	0	0	519,628
Due from Other Funds	1,318	0	0	1,318
Materials and Supplies Inventory	0	0	17,550	17,550
Prepaid Items	66,673	0	0	66,673
<b>Total Assets</b>	<b><u>\$7,831,402</u></b>	<b><u>\$699,889</u></b>	<b><u>\$4,364,468</u></b>	<b><u>\$12,895,759</u></b>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$164,733	\$0	\$134,592	\$299,325
Contracts Payable	14,636	118,279	0	132,915
Accrued Wages and Benefits Payable	991,567	0	246,370	1,237,937
Retainage Payable	0	286,986	0	286,986
Interfund Payable	0	0	519,628	519,628
Due to Other Funds	0	0	1,318	1,318
Intergovernmental Payable	238,669	0	44,440	283,109
Deferred Revenue	2,350,765	234,769	904,730	3,490,264
<b>Total Liabilities</b>	<b><u>3,760,370</u></b>	<b><u>640,034</u></b>	<b><u>1,851,078</u></b>	<b><u>6,251,482</u></b>
 <b>Fund Balances</b>				
Reserved for Encumbrances	235,774	713,284	53,387	1,002,445
Reserved for Budget Stabilization	56,688	0	0	56,688
Reserved for Bus Purchases	420,574	0	0	420,574
Reserved for Property Taxes	228,602	0	58,659	287,261
Unreserved, Undesignated, Reported in:				
General Fund	3,129,394	0	0	3,129,394
Special Revenue Funds	0	0	1,835,085	1,835,085
Capital Project Funds (Deficit)	0	(653,429)	121,913	(531,516)
Debt Service Fund	0	0	444,346	444,346
<b>Total Fund Balances</b>	<b><u>4,071,032</u></b>	<b><u>59,855</u></b>	<b><u>2,513,390</u></b>	<b><u>6,644,277</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$7,831,402</u></b>	<b><u>\$699,889</u></b>	<b><u>\$4,364,468</u></b>	<b><u>\$12,895,759</u></b>

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2004*

<b>Total Governmental Fund Balances</b>		\$6,644,277
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not financial resources are not reported in the funds		36,425,266
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	474,322	
Grants	559,279	1,033,601
Intergovernmental Payable includes contractually pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(235,644)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(3,200,000)	
Accrued Interest Payable	(13,437)	
Capital Leases Payable	(166,188)	
Sick Leave Benefits Payable	(820,814)	
Vacation Benefits Payable	(39,279)	(4,239,718)
<b>Net Assets of Governmental Activities</b>		<b>\$39,627,782</b>

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2004*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$2,180,737	\$0	\$643,300	\$2,824,037
Intergovernmental	9,880,464	64,362	2,280,466	12,225,292
Rent	3,710	0	0	3,710
Investment Earnings	55,797	11,967	8,047	75,811
Tuition and Fees	160,797	0	29,456	190,253
Charges for Services	0	0	252,993	252,993
Donations	0	0	193,907	193,907
Extracurricular	0	0	95,647	95,647
Miscellaneous	67,921	0	2,480	70,401
<i>Total Revenues</i>	<u>12,349,426</u>	<u>76,329</u>	<u>3,506,296</u>	<u>15,932,051</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,451,330	0	946,214	6,397,544
Special	1,954,576	0	469,349	2,423,925
Vocational	289,661	0	0	289,661
Adult/Continuing	18,811	0	0	18,811
Support Services:				
Pupils	475,565	0	90,048	565,613
Instructional Staff	772,578	0	322,190	1,094,768
Board of Education	325,261	0	750	326,011
Administration	861,260	0	178,126	1,039,386
Fiscal	342,607	0	25,063	367,670
Operation and Maintenance of Plant	967,190	265,247	18,426	1,250,863
Pupil Transportation	676,969	0	25,642	702,611
Central	79,334	0	5,102	84,436
Operation of Non-Instructional Services	0	0	24,605	24,605
Food Service Operations	0	0	675,973	675,973
Extracurricular Activities	370,169	0	119,737	489,906
Capital Outlay	0	530,336	73,482	603,818
Debt Service:				
Principal Retirement	52,713	0	110,000	162,713
Interest and Fiscal Charges	5,841	0	166,250	172,091
<i>Total Expenditures</i>	<u>12,643,865</u>	<u>795,583</u>	<u>3,250,957</u>	<u>16,690,405</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(294,439)</u>	<u>(719,254)</u>	<u>255,339</u>	<u>(758,354)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Fixed Asset	76,820	0	0	76,820
Inception of Capital Lease	218,901	0	0	218,901
Transfers In	26,080	0	10,347	36,427
Transfers Out	(10,347)	0	(26,080)	(36,427)
<i>Total Other Financing Sources (Uses)</i>	<u>311,454</u>	<u>0</u>	<u>(15,733)</u>	<u>295,721</u>
<i>Net Change in Fund Balance</i>	17,015	(719,254)	239,606	(462,633)
<i>Fund Balances at Beginning of Year</i>	<u>4,054,017</u>	<u>779,109</u>	<u>2,273,784</u>	<u>7,106,910</u>
<i>Fund Balances at End of Year</i>	<u>\$4,071,032</u>	<u>\$59,855</u>	<u>\$2,513,390</u>	<u>\$6,644,277</u>

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** (\$462,633)

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

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

Capital Asset Additions	603,818	
Depreciation Expense	<u>(985,101)</u>	(381,283)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of assets.

Loss on Disposal of Capital Assets	(196,635)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants	110,426	
Miscellaneous Revenues	(2,558)	
Delinquent Taxes	<u>33,893</u>	141,761

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

162,713

In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is expended when due.

(2,685)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported:

Inception of Capital Lease	(218,901)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payables	(111,159)	
Sick Leave Benefits Payable	(84,714)	
Vacation Benefits Payable	<u>(18,274)</u>	<u>(214,147)</u>

*Change in Net Assets of Governmental Activities*

(\$1,171,810)

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$2,160,000	\$2,192,312	\$2,203,516	\$11,204
Intergovernmental	9,559,648	9,512,338	9,869,309	356,971
Investment Earnings	79,611	79,217	55,797	(23,420)
Tuition and Fees	171,752	170,902	177,349	6,447
Rent	3,728	3,710	3,710	0
Miscellaneous	139,971	139,278	138,327	(951)
<i>Total Revenues</i>	<u>12,114,710</u>	<u>12,097,757</u>	<u>12,448,008</u>	<u>350,251</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,513,125	5,517,717	5,517,717	0
Special	1,865,942	1,931,440	1,930,316	1,124
Vocational	276,149	286,014	286,014	0
Adult/Continuing	24,592	25,471	25,471	0
Support Services:				
Pupils	460,748	476,965	476,965	0
Instructional Staff	740,459	764,110	764,110	0
Board of Education	324,149	327,733	327,733	0
Administration	848,789	874,033	874,033	0
Fiscal	332,490	343,850	343,850	0
Operation and Maintenance of Plant	981,876	995,538	995,538	0
Pupil Transportation	672,981	684,875	684,875	0
Central	75,263	77,952	77,952	0
Extracurricular Activities	153,903	159,404	159,404	0
<i>Total Expenditures</i>	<u>12,270,466</u>	<u>12,465,102</u>	<u>12,463,978</u>	<u>1,124</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(155,756)</u>	<u>(367,345)</u>	<u>(15,970)</u>	<u>351,375</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	76,820	76,820	0
Refund of Prior Year Expenditures	0	1	1	0
Transfers In	0	175,000	26,080	(148,920)
Other Financing Sources	0	944	0	(944)
Refund of Prior Year Receipts	0	(13,168)	(13,168)	0
Transfers Out	(10,347)	(10,347)	(10,347)	0
Advances Out	(440,069)	(440,069)	(440,069)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(450,416)</u>	<u>(210,819)</u>	<u>(360,683)</u>	<u>(149,864)</u>
<i>Net Change in Fund Balance</i>	<u>(606,172)</u>	<u>(578,164)</u>	<u>(376,653)</u>	<u>201,511</u>
<i>Fund Balance at Beginning of Year</i>	<u>4,439,140</u>	<u>4,439,140</u>	<u>4,439,140</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>235,313</u>	<u>235,313</u>	<u>235,313</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$4,068,281</u></u>	<u><u>\$4,096,289</u></u>	<u><u>\$4,297,800</u></u>	<u><u>\$201,511</u></u>

See accompanying notes to the general purpose external financial statements

**Wellston City School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2004*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$50,976</u></u>
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**Liabilities**

Due to Students	<u><u>\$50,976</u></u>
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See accompanying notes to the general purpose external financial statements

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

Wellston City School 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.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 62 classified employees, 131 certified teaching personnel, and 6 administrators, who provide services to 1,854 students and other community members.

#### **Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Wellston City School District, this includes general operations, food service, preschool, vocational and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in the Southeast Ohio Voluntary Educational Consortium, the Gallia-Jackson-Vinton Joint Vocational School District, the Coalition and Rural and Appalachian Schools, and the South Eastern Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program which is defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

The following activities are included within the reporting entity:

**Parochial Schools** The Saints Peter and Paul Catholic School operates within the School District boundaries. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial school. The activity is reflected in a special revenue fund for financial reporting purposes.

### Note 2 - Summary of Significant Accounting Policies

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

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### A. Basis of Presentation

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund.

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

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

#### B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using two categories, governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Classroom Facilities Capital Projects Fund** The Classroom Facilities Capital Projects Fund accounts for grant and debt proceeds used for the construction and renovation of the School District's school facilities.



## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### **B. Fund Accounting (Continued)**

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

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equals liabilities) and does not involve the measurement of results of operations. The School District's only fiduciary fund is an agency fund, which accounts for student activities.

#### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in 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 fund financial statements for governmental funds.

#### **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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### **D. Basis of Accounting (Continued)**

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The 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. Cash and Cash Equivalents**

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

The School District has a segregated bank account for the retainage monies held separate from the School District's central bank account. This account is presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are kept separate from the School District treasury.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### ***E. Cash and Cash Equivalents (Continued)***

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$55,797, which includes \$24,523 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented as cash and cash equivalents.

#### ***F. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

#### ***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expenses is reported in the fiscal year in which the services are consumed.

#### ***H. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated commodities held for resale.

#### ***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School 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.

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

***I. Capital Assets (Continued)***

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

Description	Estimated Lives
Buildings and Improvements	50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

***J. Interfund Activity***

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

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

***K. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

***L. Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, 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 fiscal year. Long-Term loans and bonds are recognized as a liability on the governmental fund financial statements when due.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### **M. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

#### **N. Interfund Balances**

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

#### **O. Estimates**

The preparation of the 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.

#### **P. Net Assets**

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

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

#### **Q. Extraordinary and Special Items**

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

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

***R. Budgetary Process***

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

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

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

**Note 3 – Change in Accounting Principle**

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". The Statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement has no effect on the School District's financial statements for fiscal year 2003.

**Note 4 - Accountability**

***Fund Deficits***

The following funds had deficit fund balances as of June 30, 2004:

	<u>Deficit</u>
<b>Special Revenue Funds:</b>	
Public Preschool	\$3,917
Title VI-B Idea	58,460
Title I	58,202

These deficits resulted from the recognition of deferred revenue on grants and payables in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

### Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$17,015
Revenue Accruals	(120,318)
Expenditure Accruals	398,769
Prepaid Items:	
Beginning of Year	120,028
End of Year	(66,673)
Advances	(440,069)
Encumbrances	<u>(285,405)</u>
Budget Basis	<u><u>(\$376,653)</u></u>

### Note 6 - Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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### **Note 6 - Deposits and Investments (Continued)**

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

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

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.



**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$2,672,956 and the bank balance was \$2,851,344. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,651,344 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments** The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at June 30, 2004, was \$5,504,198.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$8,177,154	\$0
Investments:		
STAR Ohio	(5,504,198)	5,504,198
GASB Statement 3	<u>\$2,672,956</u>	<u>\$5,504,198</u>

**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**Note 7 - Property Taxes (Continued)**

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The late settlements and the amount available as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2004, was \$228,602 in the General Fund, \$28,467 in the Bond Retirement Debt Service Fund, \$25,879 in the Permanent Improvements Capital Projects Fund, and \$4,313 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$251,382 in the General Fund, \$31,304 in the Bond Retirement Debt Service Fund, \$28,458 in the Permanent Improvements Capital Projects Fund, and \$4,743 in the Classroom Facilities Maintenance Special Revenue Fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
Real Property	\$77,027,580	79.71%	\$77,949,150	73.99%
Public Utility Tangible Personal Property	6,703,110	6.94%	20,153,304	19.13%
Tangible Personal Property	12,903,138	13.35%	7,250,970	6.88%
Total	\$96,633,828	100.00%	\$105,353,424	100.00%
Tax Rate per \$1,000 of Assessed Valuation		\$27.30		\$27.30

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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### Note 8 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Community Alternative Funding System	\$56,652
School Lunch and Breakfast Program	34,789
Public Preschool	43,233
Title VI-B Idea	163,243
Title I	317,104
Innovative Programs	1,851
Drug Free Schools	7,030
Handicapped Preschool	3,982
Title II-A	29,663
Title VI-B Rural	13,876
Title II-D Technology	7,876
Ohio School Facilities Commission Grant	234,769
Miscellaneous	20,249
Total	<u>\$934,317</u>

### Note 9 - Risk Management

#### A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the School District contracted with the Indiana Insurance Company for property, boiler, general liability, fleet, and professional liability insurance. The types and amounts of coverage provided are as follows:

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$49,680,381
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	2,000,000
Products - Completed Operations Aggregate Limit	0	2,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Fire Damage Limit - Any One Event	0	500,000
Errors and Omissions:		
Each Occurrence	10,000	1,000,000
Aggregate Limit	10,000	1,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	25,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2003.

### **B. Workers' Compensation**

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

### Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Deductions	Balance at 6/30/04
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$313,189	\$0	\$0	\$313,189
Depreciable Capital Assets:				
Buildings and Improvements	34,489,319	20,000	162,743	34,346,576
Furniture, Fixtures, and Equipment	2,583,615	583,818	35,552	3,131,881
Vehicles	1,145,544	0	59,766	1,085,778
Textbooks	1,284,221	0	0	1,284,221
Total Depreciable Capital Assets	39,502,699	603,818	258,061	39,848,456
Less Accumulated Depreciation:				
Buildings and Improvements	1,413,962	637,530	28,216	2,023,276
Furniture, Fixtures, and Equipment	586,357	253,776	22,751	817,382
Vehicles	602,280	80,088	10,459	671,909
Textbooks	210,105	13,707	0	223,812
Total Accumulated Depreciation	2,812,704	985,101 *	61,426	3,736,379
Total Capital Assets being Depreciated, Net	36,689,995	(381,283)	196,635	36,112,077
Capital Assets, Net	\$37,003,184	(\$381,283)	\$196,635	\$36,425,266

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

Instruction:	
Regular	\$308,715
Special	125,791
Vocational	11,443
Support Services:	
Pupils	41,930
Instructional Staff	91,461
Administration	64,817
Fiscal	11,507
Operation and Maintenance of Plant	45,773
Pupil Transportation	159,726
Central	3,843
Food Service Operation	95,360
Non-Instructional Services	3,843
Extracurricular Activities	20,892
Total Depreciation Expense	<u>\$985,101</u>

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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### **Note 11 - Defined Benefit Pension Plans**

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$153,879, \$151,282, and \$83,745, respectively; 45.08 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

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

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

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

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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### **Note 11 - Defined Benefit Pension Plans (Continued)**

#### ***B. State Teachers Retirement System (Continued)***

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$795,675, \$785,944, and \$540,696 respectively; 83.66 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$6,328 made by the School District and \$356 made by the plan members.

#### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **Note 12 - Postemployment Benefits**

The School 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-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. Most 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, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$61,206 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent the premium.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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### Note 12 - Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$83,119.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

### Note 13- Employee Benefits

#### A. *Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days vacation per fiscal year, depending upon length of service. At fiscal year end, up to ten vacation days can be carried over for not more than one fiscal year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to sick leave accrual. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 56 days, and at 30 percent for classified employees up to a maximum of 60 days.

#### B. *Insurance Benefits*

The School District provides life insurance and accidental death and dismemberment insurance to classified and administrative employees in the amount of \$40,000.

Health, dental, and vision insurance is provided by Medical Mutual Insurance. Monthly premiums for this coverage are \$1,082.22 for family coverage and \$360.74 for single coverage. The School District pays 99% for both family and single coverage premiums.

### Note 14 – Capitalized Leases

In fiscal year 2004, the School District entered into a lease agreement for fitness equipment. The lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2004 totaled \$52,713 in the governmental funds. The capital leases payable have been recorded on the government-wide statements. The agreements provide for minimum annual rental payments as follows:



**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

**Note 14 – Capitalized Leases (Continued)**

Fiscal Year	Amount
2005	\$76,739
2006	76,739
2007	19,185
Total Minimum Lease Payments	172,663
Less: Amount Representing Interest	(6,475)
Present Value of Net Minimum Lease Payments	\$166,188

The equipment has been capitalized in the amount of \$218,901, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2004, was \$16,418, leaving a remaining book value of \$202,483.

**Note 15 – Long Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Outstanding 6/30/03	Additions	Deductions	Outstanding 6/30/04	Due in One Year
<b>Governmental Activities:</b>					
1993 5.95% Energy Conservation Notes	\$10,000	\$0	\$10,000	\$0	\$0
1999 3.30% - 5.85% School Construction General Obligation Bonds	3,300,000	0	100,000	3,200,000	100,000
Capital Leases	0	218,901	52,713	166,188	72,342
Sick Leave Benefits	736,100	125,582	40,868	820,814	89,317
Total Governmental Activities Long-Term Liabilities	\$4,046,100	\$344,483	\$203,581	\$4,187,002	\$261,659

**Classroom Facilities General Obligation Bonds** The School District issued general obligation bonds for \$3,656,000 as a result of the School District being approved for a \$31,072,412 school facilities grant through the Ohio School Facilities Commission for a additions to the elementary school, and the construction of a new middle school and high school. The School District issued the bonds on June 9, 1999, to provide the required local match for the school facilities loan. As a requirement of the loans, the School District was required to pass a 5.8 mill levy. 5.3 mills will be used to repay the debt issue which provided the matching funds required of the School District. The remaining .5 mills is used for facilities maintenance.

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2004, are as follows:

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

### Note 15 – Long Term Obligations (Continued)

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$100,000	\$161,878	\$261,878
2006	105,000	157,623	262,623
2007	115,000	152,916	267,916
2008	120,000	147,745	267,745
2009	125,000	142,263	267,263
2010 - 2014	770,000	605,068	1,375,068
2015 - 2019	1,060,000	348,253	1,408,253
2020 - 2022	805,000	61,875	866,875
	<u>\$3,200,000</u>	<u>\$1,777,621</u>	<u>\$4,977,621</u>

Capital leases will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Food Service, Uniform School Supply, Public Preschool, Disadvantaged Pupil Impact Aid, Title VI-B Idea, Title I, and the Handicapped Preschool Special Revenue Funds.

The School District's overall legal debt margin was \$6,754,621, with an unvoted debt margin of \$105,353 at June 30, 2004.

### Note 16 - Jointly Governed Organizations

#### A. Southeast Ohio Voluntary Educational Consortium

The Southeast Ohio Voluntary Education Consortium (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium 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. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$20,164 for services provided during the fiscal year. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

#### B. Gallia-Jackson-Vinton Joint Vocational School District

The Gallia-Jackson-Vinton Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the various City and County Boards within Gallia, Jackson, and Vinton Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Gallia-Jackson-Vinton Joint Vocational School District, Donalyn Smith who serves as Treasurer, P.O. Box 157, Rio Grande, Ohio, 45674.

#### C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (Coalition) consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**Note 16 - Jointly Governed Organizations (Continued)**

**C. Coalition of Rural and Appalachian Schools (Continued)**

not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid the Coalition \$300 for services provided during the year.

**D. South Eastern Ohio Special Education Regional Resource Center**

The South Eastern Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Trimble Local School District's superintendent is an alternate of the SERRC Board. The School District did not pay the SERRC for any services during the year. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**Note 17 - Insurance Purchasing Pool**

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

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

**Note 18 – Interfund Activity and Balances**

**A. Transfers**

Transfers made during fiscal year 2004 were as follows:

<b>Transfer from</b>	<b>Transfer to</b>		<b>Total</b>
	<b>Major Fund</b>	<b>Other Nonmajor Governmental</b>	
General Fund	\$0	\$10,347	\$10,347
Other Nonmajor Governmental	26,080	0	26,080
<b>Total All Funds</b>	<b>\$26,080</b>	<b>\$10,347</b>	<b>\$36,427</b>

**Wellston City School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**Note 18 – Interfund Activity and Balances (Continued)**

**A. Transfers (Continued)**

The above mentioned transfers from/to were used to use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and to move receipts restricted for debt service from the funds collecting the receipts to the debt service fund as the debt service payment becomes due.

**B. Interfund Balances**

Interfund Balances at June 30, 2004, consisted of the following for services provided by the General Fund:

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	\$519,628	\$0
<b>Other Governmental Funds:</b>		
Bond Retirement	0	6,395
Food Service	0	3,500
Uniform School Supply	0	2,877
Athletics	0	16,120
Public Preschool	0	30,000
Title VI-B Idea	0	197,440
Title I	0	185,000
Title V	0	16,447
Drug Free Schools	0	2,836
Handicapped Preschools	0	6,200
Title II-A	0	26,400
Miscellaneous Federal Grants	0	26,413
Total Other Governmental Funds	0	519,628
Total All Funds	\$519,628	\$519,628

**Note 19 - Contingencies**

**A. Grants**

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

## Wellston City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

### Note 20 - Set-Aside Calculations

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

The following cash basis information describes the changes in the fiscal year end set-aside amounts for textbooks, capital acquisitions, and budget stabilization. Disclosure of this information is required by the State statute.

	Textbooks	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of as of June 30, 2003	(\$266,123)	(\$3,300,000)	\$56,688
Current Year Set-Aside Requirement	245,486	245,486	0
Current Year Offsets	0	(57,373)	0
Qualifying Disbursements	(288,612)	(603,818)	0
Totals	<u>(\$309,249)</u>	<u>(\$3,715,705)</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$309,249)</u>	<u>(\$3,300,000)</u>	<u>\$56,688</u>
Set-Aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$56,688</u>

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

### Note 21 - State School Funding Decision

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

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

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

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**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$ -	\$ 58,126	\$ -	\$ 57,110
School Breakfast Program	10.553	05-PU-03 05-PU-04	16,545 40,987		16,545 40,987	
Total School Breakfast Program			57,532	0	57,532	0
National School Lunch Program	10.555	LL-P4-03 LL-P4-04	55,783 192,387		55,783 192,387	
Total National School Lunch Program			248,170	0	248,170	0
Total Nutrition Cluster			305,702	58,126	305,702	57,110
Total United States Department of Agriculture			305,702	58,126	305,702	57,110
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-03 C1-S1-04	(132,699) 486,601		61,266 482,854	
Total Title I Grants to Local Educational Agencies			353,902	0	544,120	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-03-P 6B-SF-04	33,447 113,530		93,524 218,108	
Total Special Education - Grants to States			146,977	0	311,632	0
Special Education Preschool Grants	84.173	PG-S1-03 PG-S1-04	2,454 9,665		2,006 11,377	
Total Special Education Preschool Grants			12,119	0	13,383	0
Total Special Education Cluster			159,096	0	325,015	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-03 DR-S1-04	1,488 9,855		5,722 8,506	
Total Safe and Drug-Free Schools and Communities - State Grants			11,343	0	14,228	0
Innovative Education Program Strategies	84.298	C2-S1-01 C2-S1-02 C2-S1-03 C2-S1-04			152 198 627	
Total Innovative Education Program Strategies			11,030	0	11,030	0
Education Technology State Grants	84.318	TJ-S1-03 TJ-S1-04	672 6,984		3,854 7,524	
Total Education Technology State Grants			7,656	0	11,378	0
Comprehensive School Reform Demonstration	84.332	RF-S1-02 RF-S1-03	70,000 90,000		24,430 67,628	
Total Comprehensive School Reform Demonstration			160,000	0	92,058	0
School Renovation Grants	84.352 A	AT-S3-02	0	0	176	0
Rural Education Grants	84.358	RU-S1-03 RU-S1-04	2,319 33,804		39,248	
Total Rural Education Grants			36,123	0	39,248	0
Improving Teacher Quality State Grants	84.367	TR-S1-03 TR-S1-04	31,661 118,851		12,712 129,085	
Total Improving Teacher Quality State Grants			150,512	0	141,797	0
Total U.S. Department of Education			889,662	0	1,179,050	0
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778	N/A	154,432		154,432	
Total U. S. Department of Health and Human Services			154,432	0	154,432	0
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>						
<i>Passed through the Ohio Emergency Management Agency</i>						
Public Assistance Grants	97.036	DR-1453	2,485		0	
Total U.S. Department of Homeland Security			2,485	0	0	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 1,352,281</b>	<b>\$ 58,126</b>	<b>\$ 1,639,184</b>	<b>\$ 57,110</b>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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

**NOTE C – TRANSFERS AND REFUNDS**

During 2004, the Ohio Department of Education (ODE) authorized the School District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the transfers/carryovers and refunds are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1-S1-03	\$ 132,699	
84.010	Title I Grants to Local Educational Agencies	C1-S1-04		\$ 132,699
84.298	Innovative Education Program Strategies	C2-S1-03	132	
84.298	Innovative Education Program Strategies	C2-S1-04		132
84.186	Safe and Drug-Free Schools and Communities	DR-S1-03	1,348	
84.186	Safe and Drug-Free Schools and Communities	DR-S1-04		1,348
			<u>\$ 134,179</u>	<u>\$ 134,179</u>

**NOTE D – U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS**

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the School District previously received from other Federal agencies. The accompanying Schedule of Federal Awards Receipts and Expenditures reports all such 2004 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirements of these programs has not changed. In 2003 the School District received a Public Assistance Grant, CFDA # 83.544, from the Federal Emergency Management Agency. This Grant is reported in 2004 as Public Assistance Grant, CFDA# 97.036, from the U.S. Department of Homeland Security.





## **Auditor of State Betty Montgomery**

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

Wellston City School District  
Jackson County  
1 East Broadway Street  
Wellston, Ohio 45692

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 Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the School District's management dated February 25, 2005, we reported other matters involving internal control over financial reporting.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-003. In a separate letter to the School District's management dated February 25, 2005, we reported other matters related to noncompliance we deemed material.

Wellston City School District  
Jackson County  
Independent Accountant's Report on Internal Control Over Financial Reporting  
And on Compliance and Other Matters Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

February 25, 2005



**Auditor of State  
Betty Montgomery**

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

Wellston City School District  
Jackson County  
1 East Broadway Street  
Wellston, Ohio 45692

To the Board of Education:

**Compliance**

We have audited the compliance of the Wellston City School District, Jackson County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### **Internal Control Over Compliance**

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

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

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



**Betty Montgomery**  
Auditor of State

February 25, 2005

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster Special Education Cluster
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2004-001**

**Noncompliance Citation**

Ohio Rev. Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Student Handbook page 16, sections 4.1 and 4.2 states that "the activity advisor/coach is responsible for collecting or supervising the collection of all money collected during that day and depositing it with the Treasurer. This should be completed between 3:00 PM and 3:45 PM with the Treasurer's office and must be done once every 24 hours. No money is to be left in the building unsecured during the day or kept in the building overnight. All receipts must be deposited with the Treasurer's office on a daily basis."

Monies collected from several student activity fundraisers were not deposited to the Treasurer's office within 24 hours. Per review of the Class of 2004, Class of 2005, Future Farmers of America (FFA), and Family, Career, and Community Leaders of America (FCCLA) records, deposits often were not made in a timely manner. This could allow errors and/or irregularities to occur and remain undetected for an extended period of time.

Also, it is the policy of the School District for the Athletic Director to deposit gate receipts at the bank immediately following a home game or athletic event. Fifty-five percent of the gate receipts tested were not deposited in a timely manner. This could allow errors and/or irregularities to occur and remain undetected for an extended period of time. During the current school year, the School District has appointed an additional Athletic Director to share some of the responsibilities of that position. The School District believes that noncompliance related to gate receipts has been corrected in the current year.

We recommend that all monies be deposited to the Treasurer's Office within 24 hours or that a policy be adopted allowing officials to hold and safeguard the money for up to 3 business days.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2004-002 (Continued)**

**Noncompliance Citation (Continued)**

Ohio Rev. Code Section 5705.10 (Continued)

As of April 30, 2004, Fund 516-9204 (IDEA FY '04) had a negative fund balance of \$153,292. In addition, the following funds had insignificant negative fund balances at various times throughout the year: 002-9901 (Bond Retirement- New School Facilities), 006-0000 (Lunchroom), 439-9205 (Public Preschool), 572-9004 (Comprehensive School Reform FY '04), 572-9204 (Title I FY '04), 590-9204 (Title VI-R FY '04), and 599-9205 (Title VI-B Rural FY '04). At year-end, no negative fund balances were noted.

We recommend the Treasurer review fund balances carefully throughout the year to ensure that expenses are only covered by monies from that particular fund and that draw down requests are completed when necessary. We also recommend the General Fund advance monies into other funds in order to cover negative fund balances.

**FINDING NUMBER 2004-003**

**Noncompliance Citation**

The Student Activity Handbook, page 15 Section 3.5.5 states that activity advisors/coaches must issue receipts for all money received from students.

Per review of Student Activity records, we noted that very few duplicate receipts were issued for the FFA student activity. There were no duplicate receipts issued for the fruit sale conducted by the FFA. Although the Class of 2004 advisor did maintain a receipt book, receipts were not issued for donations and other various fund raisers; many were not pre-numbered. We also noted receipts which were signed by the school secretary and forwarded to the activity advisor for deposit. This is contrary to school policy which requires all cash received to be deposited with the Treasurer's office within 24 hours.

This could allow errors and/or irregularities to occur and remain undetected for an extended period of time, and also allows the opportunity for theft.

We recommend the School District require supporting documentation (i.e., pre-numbered duplicate receipts for all money collected, cash accountability forms showing a daily total of money collected) for all fund raising events, in order to ensure that all monies collected have been recorded in the School District's records. In addition, we recommend that all student activity advisors be required to submit their records to the Treasurer's office each year for review.

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**FINDING NUMBER 2004-004**

**Reportable Condition**

The Class of 2004 records contained purchase receipts from various stores, (such as; Foodland, Family Dollar Store, Dollar General, Factory Card and Party Outlet), which were not processed through the School District's purchasing system. Per inquiry of the Activity Advisor, cash received by the Class of 2004 Advisor was not all deposited to the Treasurer's Office and was held and subsequently expended by the Advisor. Upon further review, these purchases appeared to be related to the Student Activity. However, the Advisor overrode the School District's purchase order process and thus eliminated an important internal control process in place over the purchasing process.

We recommend the Activity Advisor deposits all monies to the Treasurer's Office, as per the School District's Student Activity Handbook, and provide detailed documentation as to the source of the money. The Activity Advisor should also assure that all expenditures follow the purchase order process as required by both the Ohio Revised Code and the School District. In addition, we recommend the School District's Board of Education enforce the requirements established within the School District's Student Activity Handbook. Student Activity Handbook violations should be taken into consideration when authorizing supplemental contracts for Activity Advisor's.

**3. FINDINGS FOR FEDERAL AWARDS**

None.



**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Ohio Rev. Code Section 9.38 was cited relating to various student activity receipts not being deposited in a timely manner.	No	Not Corrected. Refer to Schedule of Finding number 2004-001.
2003-002	Ohio Rev. Code §149.351(A) and Student Activity Handbook, page 15 Section 3.5.5 was cited as a result of the non-maintenance of Student Activity records, specifically duplicate receipt books.	No	Partially Corrected. No records were determined to have been destroyed contrary to Ohio Revised Code in FY 2004; however, the records were not maintained as per the Student Activity Handbook. Refer to Schedule of Findings number 2004-003.
2003-003	Reportable Condition relating to cash collections by the Class of 2003 not being deposited with the Treasurer and being subsequently expended overriding the purchase order requirements of the School District.	No	Not Corrected. Refer to Schedule of Findings number 2004-004.





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**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 14, 2005**