



**Auditor of State
Betty Montgomery**

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets June 30, 2004 | 11 |
| Statement of Activities For the Fiscal Year Ended June 30, 2004 | 13 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds June 30, 2004 | 14 |
| Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities June 30, 2004 | 15 |
| Statement of Revenues, Expenditures and Changes In Fund Balance - Governmental Funds For the Fiscal Year Ended June 30, 2004 | 16 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2004 | 17 |
| Statement of Net Assets – Proprietary Fund June 30, 2004 | 18 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund For the Year Ended June 30, 2004..... | 19 |
| Statement of Cash Flows Proprietary Fund For the Fiscal Year Ended June 30, 2004 | 20 |
| Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2004..... | 21 |
| Notes to the Basic Financial Statements..... | 23 |
| Required Supplemental Information: | |
| Schedule of Revenues, Expenditures and Changes In Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) For the Fiscal Year Ended June 30, 2004 | 44 |
| Notes to the Required Supplementary Information | 45 |
| Schedule of Federal Awards Expenditures..... | 47 |

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON COUNTY**

**TABLE OF CONTENTS
(Continued)**

| TITLE | PAGE |
|---|-------------|
| Notes to the Schedule of Federal Awards Expenditures | 48 |
| Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 49 |
| 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 | 51 |
| Schedule of Findings..... | 53 |



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Wilmington City School District
Clinton County
341 South Nelson Ave.
Wilmington, Ohio 45177

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wilmington City School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Wilmington City School District, Clinton County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20, for the fiscal year ended June 30, 2004, the District reclassified activity formerly reported in the enterprise fund and as a business type activity to special revenue funds and governmental activity.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the budgetary comparison for the General Fund are 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 District's basic financial statements. The federal awards expenditure schedule presented is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, but is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule 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

March 16, 2005

WILMINGTON CITY SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$1.91 million.
- General revenues accounted for \$24.42 million in revenue or 90.5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2.56 million or 9.5% of total revenues of \$26.98 million.
- Total assets of governmental activities decreased by \$0.04 million as taxes receivable decreased by \$0.35 million while cash and other receivables increased by \$0.88 million.
- The District had \$25.07 million in expenses related to governmental activities; \$2.56 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$24.42 million were adequate to provide for these programs.
- As the major fund, the General Fund had \$22.19 million in revenues and \$20.81 million in expenditures. The General Fund's balance increased from \$1.87 to \$3.25 million.

Using this Basic 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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District consists of one activity:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major fund is presented in the fund financial statements. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps 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 District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2003 compared to 2004:

Table 1
Net Assets

| | <u>Governmental Activities</u> | |
|--------------------------|--------------------------------|--------------------|
| | <u>2003</u> | <u>2004</u> |
| Assets | | |
| Current and Other Assets | \$23,753,601 | \$24,275,635 |
| Capital Assets | <u>17,923,939</u> | <u>17,365,545</u> |
| Total Assets | <u>41,677,540</u> | <u>41,641,180</u> |
| Liabilities | | |
| Long-Term Liabilities | 15,632,237 | 14,455,706 |
| Other Liabilities | <u>18,058,937</u> | <u>17,288,584</u> |
| Total Liabilities | <u>33,691,174</u> | <u>31,744,290</u> |
| Net Assets | | |
| Invested in Capital | | |
| Assets Net of Debt | 3,116,323 | 3,924,674 |
| Restricted | 3,651,587 | 3,510,611 |
| Unrestricted | <u>1,218,456</u> | <u>2,461,605</u> |
| Total Net Assets | <u>\$7,986,366</u> | <u>\$9,896,890</u> |

Total assets decreased \$0.04 million. Equity in pooled cash and cash equivalents increased \$0.88 million. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. Taxes receivable decreased \$0.35 million. Total liabilities decreased \$1.95 million, resulting in a net asset increase of \$1.91 million. This decrease represents a decrease in long term debt.

Table 2 shows the change in net assets for fiscal year 2004 compared to fiscal year 2003.

Table 2
Changes in Net Assets

| | Governmental Activities <u>2003</u> | Governmental Activities <u>2004</u> |
|--|---|---|
| Revenues | | |
| Program Revenues: | | |
| Charges for Services | \$978,067 | \$956,402 |
| Operating Grants | 1,369,738 | 1,579,820 |
| Capital Grants | 106,315 | 21,691 |
| General Revenue: | | |
| Income Taxes | 226,312 | 2,036,764 |
| Property Taxes | 12,278,746 | 12,619,641 |
| Grants and Entitlements | 8,592,556 | 8,869,433 |
| Other | <u>412,800</u> | <u>897,195</u> |
| Total Revenues | <u>23,964,534</u> | <u>26,980,946</u> |
| Program Expenses: | | |
| Instruction | 13,753,712 | 14,395,004 |
| Support Services: | | |
| Pupil and Instructional Staff Board, Administrative, Fiscal and Business | 1,855,589 | 2,094,602 |
| Operations and Maintenance | 2,429,487 | 2,788,996 |
| Pupil Transportation | 2,044,904 | 2,436,264 |
| Central | 1,200,389 | 1,234,367 |
| Operation of Non-Instructional Services | 6,639 | 75,529 |
| Extracurricular Activities | 853,719 | 950,068 |
| Interest and Fiscal Charges | 432,737 | 511,637 |
| | <u>648,508</u> | <u>583,955</u> |
| Total Expenses | <u>23,225,684</u> | <u>25,070,422</u> |
| Increase in Net Assets | <u>\$738,850</u> | <u>\$1,910,524</u> |

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised 80% of the District's revenues for governmental activities.

The District depends greatly on both income and property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not collect additional property tax revenue on the increased value of homes that is due to appreciation and must regularly return to the voters to maintain a constant level of service. Property taxes made up 47% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 57% of governmental program expenses. Support services expenses were 34% of governmental program expenses. Instruction and support services expense increased due to increases in wages. Extracurricular and interest expense was 8%. Interest expense was attributable to the outstanding bond and borrowing for capital projects. The District began collecting income tax at the end of fiscal year 2003. The District collected income taxes for all of fiscal year 2004 thus the revenue increased.

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

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---|------------------------|---------------------|-----------------------|-----------------------|
| | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> |
| Instruction | \$13,753,712 | \$14,395,004 | (\$12,525,108) | (\$13,120,560) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 1,855,589 | 2,094,602 | (1,552,985) | (1,737,214) |
| Board, Administration, Fiscal and Business | 2,429,487 | 2,788,996 | (2,400,520) | (2,709,686) |
| Operations and Maintenance | 2,044,904 | 2,436,264 | (2,042,324) | (2,433,649) |
| Pupil Transportation | 1,200,389 | 1,234,367 | (1,143,651) | (1,212,676) |
| Central | 6,639 | 75,529 | 6,764 | (62,608) |
| Operation of Non-Instructional Services | 853,719 | 950,068 | (79,708) | (245,697) |
| Extracurricular Activities | 432,737 | 511,637 | (385,524) | (406,464) |
| Interest and Fiscal Charges | <u>648,508</u> | <u>583,955</u> | <u>(648,508)</u> | <u>(583,955)</u> |
| Total Expenses | <u>\$23,225,684</u> | <u>\$25,070,422</u> | <u>(\$20,771,564)</u> | <u>(\$22,512,509)</u> |

The District's Funds

Information about the District's major funds is presented in the fund financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$27,618,090 and expenditures and other financing uses of \$26,300,445. The net change in fund balance for the year was \$1,317,645, only 24%. The General fund balance increased \$1,381,312 due to an increase in income tax and grant revenue. The Debt Service fund balance increased \$53,794 due to a decrease in principal and interest payments for the District's debt.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget at times, however none were significant. The District's budgeting systems are designed to tightly control total budgets but provide flexibility for management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$21.46 million, below original budget estimates of \$21.69 million. Of this \$.24 million difference, most was due to a difference in estimate for taxes and intergovernmental revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$17.36 million invested in land, buildings and equipment. Table 4 shows fiscal 2004 balances compared to fiscal 2003:

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

| | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|---------------------|
| | <u>2003</u> | <u>2004</u> |
| Land and Improvements | \$624,927 | \$624,927 |
| Buildings and Improvements | 17,064,961 | 16,586,138 |
| Equipment | <u>114,968</u> | <u>154,480</u> |
| Total Net Assets | <u>\$17,804,856</u> | <u>\$17,365,545</u> |

The decrease in capital assets is due to \$0.28 million in deletions, and the recognition of \$0.84 million in depreciation expense. This District continues its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2004, the District had \$13,290,000 in bonds outstanding, \$1,225,000 due within one year. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt, at Year End

| | Governmental | Governmental |
|--|---------------------|---------------------|
| | Activities | Activities |
| | <u>2003</u> | <u>2004</u> |
| Bonds Payable: | | |
| Wilmington High School Addition Renovation | \$7,260,000 | \$6,995,000 |
| Bond Refunding 2001 | 7,055,000 | 6,195,000 |
| Energy Conservation Note | 200,000 | 100,000 |
| Technology Capital Lease | <u>292,616</u> | <u>150,871</u> |
| | <u>\$14,515,000</u> | <u>\$13,290,000</u> |

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not “equitable” nor “adequate”. The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court’s concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

The District received a slight increase in state funding for fiscal year 2004. The income tax passed by voters in February 2003 will allow the District to maintain current operations in the current year but as promised to voters, school officials plan to let the 1985 emergency operating levy expire in calendar 2004 and not take a new levy back to the voters. This will mean a loss of \$854,000 in property tax revenue after the collection of the final year in 2005. The Income Tax is expected to be at full potential by fiscal year 05 and will offset the loss of the emergency levy.

The Five Year Forecast projects that the District will be expending more than its receipts in FY 07 and by the next fiscal year would be operating in the negative with cuts to staff and programs.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jessie Wilson, Treasurer at Wilmington City Schools, 341 S. Nelson Avenue, Wilmington, Ohio 45177 or by e-mail at Wilm_tres@mveca.org.

THIS PAGE INTENTIONALLY LEFT BLANK

Wilmington City School District
Statement of Net Assets
June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$7,105,027 |
| Restricted Cash and Investments | 57,982 |
| Receivables: | |
| Taxes | 17,000,637 |
| Accounts | 20,203 |
| Intergovernmental | 91,436 |
| Inventory | 350 |
| Nondepreciable Capital Assets | 624,927 |
| Depreciable Capital Assets, Net | <u>16,740,618</u> |
| Total Assets | <u>41,641,180</u> |
| Liabilities: | |
| Accounts Payable | 765,390 |
| Accrued Wages and Benefits | 2,043,572 |
| Accrued Interest Payable | 48,057 |
| Deferred Revenue | 14,402,354 |
| Claims Payable | 29,211 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,716,903 |
| Due In More Than One Year | <u>12,738,803</u> |
| Total Liabilities | <u>31,744,290</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 3,924,674 |
| Restricted for: | |
| Special Revenue | 1,098,748 |
| Debt Service | 2,274,844 |
| Capital Projects | 79,037 |
| Set-Aside | 57,982 |
| Unrestricted | <u>2,461,605</u> |
| Total Net Assets | <u><u>\$9,896,890</u></u> |

See accompanying notes to the Basic Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

Wilmington City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|-----------------------------------|---------------------------------------|-------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$10,977,570 | \$368,344 | \$320,731 | \$0 | (\$10,288,495) |
| Special | 2,419,118 | 0 | 549,462 | 0 | (1,869,656) |
| Vocational | 316,650 | 0 | 0 | 0 | (316,650) |
| Other | 681,666 | 925 | 34,982 | 0 | (645,759) |
| Support Services: | | | | | |
| Pupil | 767,212 | 0 | 67,155 | 0 | (700,057) |
| Instructional Staff | 1,327,390 | 0 | 290,233 | 0 | (1,037,157) |
| General Administration | 227,447 | 0 | 0 | 0 | (227,447) |
| School Administration | 1,561,253 | 57,576 | 0 | 0 | (1,503,677) |
| Fiscal | 615,831 | 0 | 21,734 | 0 | (594,097) |
| Business | 384,465 | 0 | 0 | 0 | (384,465) |
| Operations and Maintenance | 2,436,264 | 2,615 | 0 | 0 | (2,433,649) |
| Pupil Transportation | 1,234,367 | 0 | 0 | 21,691 | (1,212,676) |
| Central | 75,529 | 0 | 12,921 | 0 | (62,608) |
| Operation of Non-Instructional Services | 950,068 | 421,769 | 282,602 | 0 | (245,697) |
| Extracurricular Activities | 511,637 | 105,173 | 0 | 0 | (406,464) |
| Interest and Fiscal Charges | 583,955 | 0 | 0 | 0 | (583,955) |
| Total Governmental Activities | 25,070,422 | 956,402 | 1,579,820 | 21,691 | (22,512,509) |
| Totals | \$25,070,422 | \$956,402 | \$1,579,820 | \$21,691 | (\$22,512,509) |

General Revenues:

| | |
|---|-------------------|
| Income Taxes | 2,036,764 |
| Property Taxes Levied for: | |
| General Purposes | 10,482,977 |
| Special Revenue Purposes | 234,141 |
| Debt Service Purposes | 1,815,970 |
| Capital Projects Purposes | 86,553 |
| Grants and Entitlements not Restricted to Specific Programs | 8,869,433 |
| Payment in Lieu of Taxes | 175,000 |
| Unrestricted Contributions | 47,016 |
| Investment Earnings | 141,609 |
| Refunds and Reimbursements | 44,763 |
| Other Revenues | 488,807 |
| Total General Revenues | 24,423,033 |
| Change in Net Assets | 1,910,524 |
| Net Assets Beginning of Year | 7,986,366 |
| Net Assets End of Year | \$9,896,890 |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Balance Sheet
Governmental Funds
June 30, 2004

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--------------------------|--------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | \$3,135,935 | \$2,152,376 | \$1,496,201 | \$6,784,512 |
| Restricted Cash and Investments | 57,982 | 0 | 0 | 57,982 |
| Receivables: | | | | |
| Taxes | 14,991,326 | 1,694,939 | 314,372 | 17,000,637 |
| Accounts | 2,519 | 0 | 17,684 | 20,203 |
| Intergovernmental | 44,933 | 0 | 46,503 | 91,436 |
| Interfund | 14,000 | 0 | 0 | 14,000 |
| Inventory | 0 | 0 | 350 | 350 |
| Total Assets | 18,246,695 | 3,847,315 | 1,875,110 | 23,969,120 |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts Payable | 582,234 | 0 | 180,913 | 763,147 |
| Accrued Wages and Benefits | 1,747,241 | 0 | 176,098 | 1,923,339 |
| Compensated Absences | 69,284 | 0 | 0 | 69,284 |
| Interfund Payable | 0 | 0 | 14,000 | 14,000 |
| Deferred Revenue | 12,593,660 | 1,525,205 | 291,434 | 14,410,299 |
| Total Liabilities | 14,992,419 | 1,525,205 | 662,445 | 17,180,069 |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 290,798 | 0 | 309,534 | 600,332 |
| Reserved for Inventory | 0 | 0 | 350 | 350 |
| Reserved for Property Tax Advances | 1,055,086 | 169,734 | 30,883 | 1,255,703 |
| Reserved for Set-Aside | 57,982 | 0 | 0 | 57,982 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 1,850,410 | 0 | 0 | 1,850,410 |
| Special Revenue Funds | 0 | 0 | 892,914 | 892,914 |
| Debt Service Funds | 0 | 2,152,376 | 0 | 2,152,376 |
| Capital Projects Funds | 0 | 0 | (21,016) | (21,016) |
| Total Fund Balances | 3,254,276 | 2,322,110 | 1,212,665 | 6,789,051 |
| Total Liabilities and Fund Balances | \$18,246,695 | \$3,847,315 | \$1,875,110 | \$23,969,120 |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

| | | |
|--|--------------|---------------------|
| Total Governmental Fund Balance | | \$6,789,051 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 17,365,545 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Intergovernmental | <u>7,945</u> | 7,945 |
| An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | 289,061 |
| In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | (48,057) |
| Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. | | |
| Pension Obligation | (120,233) | |
| Compensated Absences | (945,551) | |
| Other | <u>0</u> | |
| | | (1,065,784) |
| Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds. | | <u>(13,440,871)</u> |
| Net Assets of Governmental Activities | | <u>\$9,896,890</u> |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$12,519,743 | \$1,756,950 | \$320,694 | \$14,597,387 |
| Tuition and Fees | 278,461 | 0 | 0 | 278,461 |
| Investment Earnings | 66,134 | 0 | 75,475 | 141,609 |
| Intergovernmental | 8,913,520 | 153,078 | 1,569,492 | 10,636,090 |
| Extracurricular Activities | 0 | 0 | 54,371 | 54,371 |
| Charges for Services | 0 | 0 | 562,154 | 562,154 |
| Other Revenues | 408,034 | 95 | 207,080 | 615,209 |
| Total Revenues | 22,185,892 | 1,910,123 | 2,789,266 | 26,885,281 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,907,895 | 0 | 456,749 | 10,364,644 |
| Special | 1,759,631 | 0 | 587,602 | 2,347,233 |
| Vocational | 307,950 | 0 | 0 | 307,950 |
| Other | 681,666 | 0 | 0 | 681,666 |
| Support Services: | | | | |
| Pupil | 738,499 | 0 | 19,445 | 757,944 |
| Instructional Staff | 977,266 | 0 | 275,313 | 1,252,579 |
| General Administration | 216,293 | 1,039 | 179 | 217,511 |
| School Administration | 1,444,239 | 0 | 456 | 1,444,695 |
| Fiscal | 558,648 | 41,991 | 8,628 | 609,267 |
| Business | 380,591 | 0 | 0 | 380,591 |
| Operations and Maintenance | 2,149,106 | 0 | 617 | 2,149,723 |
| Pupil Transportation | 1,144,400 | 0 | 63,497 | 1,207,897 |
| Central | 3,855 | 0 | 71,674 | 75,529 |
| Operation of Non-Instructional Services | 0 | 0 | 907,663 | 907,663 |
| Extracurricular Activities | 390,898 | 0 | 120,953 | 511,851 |
| Capital Outlay | 93 | 0 | 502,083 | 502,176 |
| Debt Service: | | | | |
| Principal Retirement | 141,745 | 1,225,000 | 0 | 1,366,745 |
| Interest and Fiscal Charges | 5,977 | 588,299 | 0 | 594,276 |
| Total Expenditures | 20,808,752 | 1,856,329 | 3,014,859 | 25,679,940 |
| Excess of Revenues Over (Under) Expenditures | 1,377,140 | 53,794 | (225,593) | 1,205,341 |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 4,172 | 0 | 108,132 | 112,304 |
| Transfers In | 67,000 | 0 | 553,505 | 620,505 |
| Transfers (Out) | (67,000) | 0 | (553,505) | (620,505) |
| Total Other Financing Sources (Uses) | 4,172 | 0 | 108,132 | 112,304 |
| Net Change in Fund Balance | 1,381,312 | 53,794 | (117,461) | 1,317,645 |
| Fund Balance Beginning of Year | 1,872,964 | 2,268,316 | 1,330,126 | 5,471,406 |
| Fund Balance End of Year | \$3,254,276 | \$2,322,110 | \$1,212,665 | \$6,789,051 |

See accompanying notes to the Basic Financial Statements.

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

Net Change in Fund Balance - Total Governmental Funds \$1,317,645

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

| | | |
|--|------------------|-----------|
| Capital assets used in governmental activities | 275,569 | |
| Depreciation Expense | <u>(833,963)</u> | (558,394) |

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

| | | |
|-------------------|-----------------|----------|
| Intergovernmental | <u>(16,639)</u> | (16,639) |
|-------------------|-----------------|----------|

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,366,745

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 10,321

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.

| | | |
|----------------------|------------------|-----------|
| Pension Obligation | (36,536) | |
| Compensated Absences | <u>(171,143)</u> | (207,679) |

The internal service fund used by management to charge back costs to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (1,475)

Change in Net Assets of Governmental Activities \$1,910,524

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Statement of Net Assets
Proprietary Funds
June 30, 2004

| | <u>Governmental Activities- Internal Service Fund</u> |
|---------------------------------------|---|
| Assets: | |
| Equity in Pooled Cash and Investments | <u>\$320,515</u> |
| Total Assets | <u>320,515</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 2,243 |
| Claims Payable | <u>29,211</u> |
| Total Liabilities | <u>31,454</u> |
| Net Assets: | |
| Unrestricted | <u>289,061</u> |
| Total Net Assets | <u><u>\$289,061</u></u> |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

| | Governmental Activities- Internal Service Fund |
|------------------------------|---|
| Operating Revenues: | |
| Other Revenues | 187,155 |
| Total Operating Revenues | <u>187,155</u> |
| Operating Expenses: | |
| Claims Expense | 186,387 |
| Other Expenses | <u>2,243</u> |
| Total Operating Expenses | <u>188,630</u> |
| Operating Income (Loss) | <u>(1,475)</u> |
| Change in Net Assets | (1,475) |
| Net Assets Beginning of Year | <u>290,536</u> |
| Net Assets End of Year | <u><u>\$289,061</u></u> |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

| | Governmental Activities- Internal Service Fund |
|--|---|
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$187,155 |
| Cash Payments for Claims | <u>(183,441)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>3,714</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 3,714 |
| Cash and Cash Equivalents Beginning of Year | <u>316,801</u> |
| Cash and Cash Equivalents End of Year | <u><u>320,515</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (1,475) |
| Changes in Assets & Liabilities: | |
| Increase (Decrease) in Payables | <u>5,189</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$3,714</u></u> |

See accompanying notes to the Basic Financial Statements.

Wilmington City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

| | Private Purpose Trust | Agency |
|---------------------------------------|-----------------------------|-----------------|
| Assets: | | |
| Equity in Pooled Cash and Investments | \$10 | \$59,598 |
| Total Assets | <u>10</u> | <u>\$59,598</u> |
| Liabilities: | | |
| Accounts Payable | 0 | 1,417 |
| Other Liabilities | <u>0</u> | <u>58,181</u> |
| Total Liabilities | <u>0</u> | <u>\$59,598</u> |
| Net Assets: | | |
| Held in Trust | <u>10</u> | |
| Total Net Assets | <u>\$10</u> | |

See accompanying notes.

THIS PAGE INTENTIONALLY LEFT BLANK

WILMINGTON CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

1. DESCRIPTION OF THE DISTRICT

The Wilmington City School District (District) was originally organized in 1853 known as School District No. 1 of Union Township. In 1853 State Laws were enacted to create a local Board of Education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's six instructional and support facilities staffed by 122 non-certificated and 203 certificated teaching personnel and 18 administrative employees to provide service to 3,151 students and other community members.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

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

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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

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

Governmental Funds

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

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Ohio law.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service.

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis.

Fiduciary Funds

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

3. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual 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 District, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income taxes, property taxes available for advance, grants and interest.

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 the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

CASH AND CASH EQUIVALENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and investments” on the financial statements.

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$141,609.

For purposes of the Statement of Cash Flows, the internal service fund portion of equity in pooled cash and investments is considered to be a cash equivalent because the internal service fund portion of the pool can be assessed without prior notice or penalty.

INVENTORY

Inventories are presented at a first-in, first-out basis and are expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported 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 year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated, except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> | <u>Business-Type Activities Estimated Lives</u> |
|----------------------------|--|---|
| Buildings and Improvements | 20-40 years | N/A |
| Equipment | 3-15 years | 3-15 years |

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid.

The District’s policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

| <u>VACATION</u> | <u>Certificated</u> | <u>Administrators</u> | <u>Non-Certificated</u> |
|-------------------------|---|---|---|
| How earned | Not Eligible | 15 to 20 days depending on length of service | 10-20 days depending on length of service |
| Maximum Accumulation | Not Applicable | Not Applicable | Not Applicable |
| Vested | Not Applicable | As Earned | As Earned |
| <u>SICK LEAVE</u> | | | |
| How Earned | 1 1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) |
| Maximum Accumulation | 210 days | 210 days | 200 days |
| Vested | As Earned | As Earned | As Earned |
| Termination Entitlement | Per Contract | Per Contract | Per Contract |

NET ASSETS

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

INTERFUND ACTIVITY

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. These transfers are eliminated on the Statement of Activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

4. CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Deposits – At the year end, the carrying amount of the District's deposits was \$6,678,229. The bank balance of deposits was \$6,695,678 of which \$100,000 was covered by federal depository insurance. The remaining balance of \$6,595,678 was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the 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 District's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year-end are classified as follows:

| <u>Description</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Carrying Amount/ Fair Value</u> |
|----------------------|-------------------|-------------------|-------------------|--|
| Money Market Funds | \$0 | \$0 | \$475,000 | \$475,000 |
| Repurchase Agreement | <u>0</u> | <u>0</u> | <u>69,388</u> | <u>69,388</u> |
| Total Investments | <u>\$0</u> | <u>\$0</u> | <u>\$544,388</u> | <u>\$544,388</u> |

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

5. PROPERTY TAXES

Real property taxes collected in 2004 were levied in April on the assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). In 2003, each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2004, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2004. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$1,055,086 for General Fund, \$169,734 for Debt Service \$21,830 for Special Revenue and \$9,053 for Capital Projects, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2004 operations. The amount available for advance at June 30, 2003 was \$1,246,380 for General Fund, \$204,703 for Debt Service, and \$10,525 for Capital Projects, with a corresponding reserve to fund balance since the Board did not appropriate those receivables for fiscal year 2003 operations.

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:

| | <u>Amount</u> |
|---|----------------------|
| Agricultural/Residential and Other Real Estate | \$341,713,610 |
| Public Utility Personal | 21,264,720 |
| Tangible Personal Property | <u>87,838,946</u> |
| Total | <u>\$450,817,276</u> |

6. RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

7. CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|-------------------|---------------------------|
| Government Activities | | | | |
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$624,927 | \$0 | \$0 | \$624,927 |
| <i>Depreciable Capital Assets:</i> | | | | |
| Buildings and Improvements | 25,291,859 | 176,654 | 275,087 | 25,193,426 |
| Equipment | <u>5,035,171</u> | <u>98,915</u> | <u>5,498</u> | <u>5,128,588</u> |
| Totals at Historical Cost | <u>\$30,951,957</u> | <u>\$275,569</u> | <u>\$280,585</u> | <u>\$30,946,941</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | \$8,226,898 | \$655,477 | \$275,087 | \$8,607,288 |
| Equipment | <u>4,801,120</u> | <u>178,486</u> | <u>5,498</u> | <u>4,974,108</u> |
| Total Accumulated Depreciation | <u>\$13,028,018</u> | <u>\$833,963</u> | <u>\$280,585</u> | <u>\$13,581,396</u> |
| Governmental Activities Capital Assets, Net | <u>\$17,923,939</u> | <u>(\$558,394)</u> | <u>\$0</u> | <u>\$17,365,545</u> |

*Depreciation expense was charged to governmental functions as follows:

| | |
|--|------------------|
| Instruction: | |
| Regular | \$525,179 |
| Special | 46,519 |
| Vocational | 6,560 |
| Support Services: | |
| Pupil | 1,224 |
| Instructional Staff | 8,096 |
| General Administration | 9,936 |
| School Administration | 76,505 |
| Fiscal | 139 |
| Business | 3,426 |
| Operations and Maintenance | 123,814 |
| Pupil Transportation | 19,679 |
| Operation of Noninstructional Services | <u>12,886</u> |
| Total Depreciation Expense | <u>\$833,963</u> |

8. LONG-TERM LIABILITIES

| | <u>Maturity Dates</u> | <u>Beginning Principal Outstanding</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Principal Outstanding</u> | <u>Due In One Year</u> |
|--|---------------------------|--|------------------|--------------------|---|----------------------------|
| <u>Governmental Activities:</u> | | | | | | |
| <u>General Obligation Bonds and Notes:</u> | | | | | | |
| Wilmington H.S. Addition Renovation 1998 4.98% | 12/01/20 | \$7,260,000 | \$ 0 | \$265,000 | \$6,995,000 | \$275,000 |
| Bond Refunding 2001 3.80% | 12/01/02 | 7,055,000 | 0 | 860,000 | 6,195,000 | 850,000 |
| Energy Conservation Notes 1996 5.25% | 6/01/05 | <u>200,000</u> | <u>0</u> | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> |
| Total General Obligation Bonds and Notes | | 14,515,000 | 0 | 1,225,000 | 13,290,000 | 1,225,000 |
| Compensated Absences | | 824,621 | 283,781 | 93,567 | 1,014,835 | 341,032 |
| Capital Leases | | <u>292,616</u> | <u>0</u> | <u>141,745</u> | <u>150,871</u> | <u>150,871</u> |
| Total Governmental Activities Long-Term Liabilities | | <u>\$15,632,237</u> | <u>\$283,781</u> | <u>\$1,460,312</u> | <u>\$14,455,706</u> | <u>\$1,716,903</u> |

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. Capital lease obligations will be paid from the general fund.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

| <u>Fiscal Year</u> | <u>General Obligation Debt</u> | | |
|------------------------|--------------------------------|--------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| <u>Ending June 30,</u> | | | |
| 2005 | 1,225,000 | 542,655 | 1,767,655 |
| 2006 | 1,130,000 | 498,235 | 1,628,235 |
| 2007 | 1,125,000 | 456,190 | 1,581,190 |
| 2008 | 1,130,000 | 412,862 | 1,542,862 |
| 2009-2013 | 4,606,973 | 2,659,565 | 7,266,537 |
| 2014-2018 | 2,373,027 | 730,605 | 3,103,632 |
| 2019-2021 | <u>1,700,000</u> | <u>130,250</u> | <u>1,830,250</u> |
| Totals | <u>\$13,290,000</u> | <u>\$5,430,362</u> | <u>\$18,720,361</u> |

9. LEASES

CAPITAL LEASES

The District has entered into a capital lease for June 30, 2003 to upgrade technology.

The lease for the technology upgrade meets the criteria of capital lease as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments will be made from the General fund. Capital assets include \$432,481 of assets included under capital leases.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

| <u>Fiscal Year</u> <u>Ending June 30,</u> | <u>Long-Term</u> <u>Debt</u> |
|--|---------------------------------|
| 2005 | \$156,848 |
| Total Minimum Lease Payments | 156,848 |
| Less: Amount Representing Interest | <u>(5,977)</u> |
| Present Value of Minimum Lease Payments | <u>\$150,871</u> |

10. DEFINED BENEFIT PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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% 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% 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% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$359,640, \$347,148 and \$330,876 respectively; 50% has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$180,348 represents the unpaid contribution for fiscal year 2004.

STATE TEACHERS RETIREMENT SYSTEM

The School District participates in 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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 disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5%. 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 members and employer contributions.

The District's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2004, 2003, and 2002 were \$1,427,700, \$1,328,244 and \$1,352,004 respectively, 82.2% has been contributed for fiscal year 2004, and 100 percent for the fiscal years 2003 and 2002. \$254,256 represents the unpaid contribution for fiscal year 2004.

11. POST EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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 costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. 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 Reserve Fund. For the District, this amount equaled \$426,936 during the 2004 fiscal year.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, 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, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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 was established at \$24,500. For the District, this amount equaled \$211,760 during the 2004 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, 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 currently receiving health care benefits.

12. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2004.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

13. JOINTLY GOVERNED ORGANIZATION

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust -

The EPC Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public school districts who are members of the Southwestern Ohio Educational Purchasing Cooperative (EPC). The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross Blue Shield or United Healthcare. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating EPC member districts. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 1831 Harshman Road, Dayton, Ohio 45424.

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of Superintendents from the seventeen school districts, plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents as well as three parents of handicapped children in the region. The Highland /Clinton/Fayette Educational Service District acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and a considerable number of Federal and State Grants.

The District is a participant in the **Miami Valley Educational Computer Association (MVECA)** which is a computer consortium A-site used by the District. MVECA is an association of 27 public school districts in a geographic area determined by the Ohio Department of Education. MVECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. Complete financial statements can be obtained from MVECA located at 330 East Enon Road, Yellow Springs, Ohio 45387.

14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine and property insurance from private carriers. General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the general aggregate. Other liability insurance includes \$1,000,000 bodily injury and \$250,000 property damage per accident as well as uninsured motorist coverage. In addition, the District maintains property damage insurance on the buildings and contents in the amount of \$40,411,468.

Dental insurance is offered to employees through a self-insurance internal service fund. The claims liability reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of cost relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

| | Balance Beginning of Year | Current Year Claims | Claims Payments | Balance End of Year |
|------|---------------------------------|------------------------|--------------------|------------------------|
| 2004 | \$26,265 | \$189,333 | \$186,387 | \$29,211 |
| 2003 | 17,049 | 198,533 | 189,317 | 26,265 |

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

16. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

| <u>Fund</u> | <u>Deficit</u> |
|------------------------------|----------------|
| Special Revenue: | |
| Special Education | \$7,966 |
| IDEA Preschool Grant | 174 |
| Miscellaneous Federal Grants | 8,917 |
| Food Service | 59,490 |
| Capital Projects: | |
| Classroom Facilities | \$3 |

17. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2004, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|---|--------------------|----------------------------|-----------------------------|
| Set-aside Reserve Balance as of June 30, 2003 | \$0 | \$ 0 | \$57,982 |
| Current Year Set-aside Requirement | 431,745 | 431,745 | 0 |
| Qualified Disbursements | (782,404) | (676,592) | 0 |
| Current Year Offsets | <u>0</u> | <u>0</u> | <u>0</u> |
| Set-Aside Reserve Balance as of June 30, 2004 | <u>(\$350,659)</u> | <u>(\$244,847)</u> | <u>\$57,982</u> |
| Restricted Cash as of June 30, 2004 | <u>\$57,982</u> | | |

Senate Bill 345 eliminated the Budget Stabilization Reserve. Senate Bill 345 also restricted what the District may use. Bureau of Workers' Compensation refunds for which the District was previously required to deposit into the Budget Stabilization Reserve. The balance of the Budget Stabilization Reserve reflects Bureau of Workers' Compensation refunds previously received into the Budget Stabilization Reserve.

Expenditures for capital activity during the year totaled \$676,592. Although the District may have had qualifying disbursements during the year that reduced the set-aside amount for capital acquisitions to below zero, these extra amounts are not to reduce the set-aside requirement for capital acquisitions in succeeding fiscal years. Expenditures for textbooks totaled \$782,404. The District may carry forward \$350,659 to offset textbook requirements in future years.

18. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

| | Interfund Loan <u>Receivable</u> | Interfund Loan <u>Payable</u> | Transfers <u>In</u> | Transfers <u>Out</u> |
|----------------------------------|-------------------------------------|----------------------------------|------------------------|-------------------------|
| General Fund | \$14,000 | 0 | \$67,000 | \$67,000 |
| Special Revenue Fund: | | | | |
| Classroom Facilities Maintenance | 0 | 0 | 486,505 | 0 |
| Food Service | 0 | 14,000 | 67,000 | 67,000 |
| Capital Projects Fund: | | | | |
| Classroom Facilities | <u>0</u> | <u>0</u> | <u>0</u> | <u>486,505</u> |
| | <u>\$14,000</u> | <u>\$14,000</u> | <u>\$620,505</u> | <u>\$620,505</u> |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

19. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statements. On June 30, 2003, approximately \$7.5 million of bonds outstanding are considered defeased.

20. PRIOR PERIOD ADJUSTMENT

The beginning net asset/fund balances of special revenue, enterprise and governmental activities has been adjusted for the reclassification of enterprise funds as follows:

| | District-Wide Financial Statements | | Fund Financial Statements | |
|---|------------------------------------|-----------------------------|---------------------------|-----------------|
| | Governmental Activities | Business Type Activities | Other Governmental | Enterprise |
| June 30, 2003 Fund Balance / Net Assets, as previously stated | \$7,973,420 | \$12,946 | \$1,436,263 | \$12,946 |
| Enterprise Fund Reclassification | <u>12,976</u> | <u>(12,946)</u> | <u>(106,137)</u> | <u>(12,946)</u> |
| June 30, 2003 Fund balance/ Net Assets, as restated | <u>\$7,986,366</u> | <u>\$0</u> | <u>\$1,330,126</u> | <u>\$0</u> |

The District reclassified the enterprise funds to special revenue funds because the enterprise funds are funded mostly by sales, however the enterprise fund revenue needs grants and transfers from the general fund to break even.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Wilmington City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2004

| | General Fund | | | |
|---|--------------------|--------------------|--------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Taxes | \$11,965,148 | \$11,836,491 | \$11,836,491 | \$0 |
| Tuition and Fees | 281,595 | 278,567 | 278,567 | 0 |
| Investment Earnings | 66,853 | 66,134 | 66,134 | 0 |
| Intergovernmental | 8,970,911 | 8,874,450 | 8,874,450 | 0 |
| Other Revenues | 410,265 | 405,854 | 405,854 | 0 |
| Total Revenues | 21,694,772 | 21,461,496 | 21,461,496 | 0 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 10,246,740 | 10,434,760 | 10,437,275 | (2,515) |
| Special | 1,763,681 | 1,796,476 | 1,796,476 | 0 |
| Vocational | 304,984 | 310,655 | 310,655 | 0 |
| Other | 653,075 | 671,449 | 665,219 | 6,230 |
| Support Services: | | | | |
| Pupil | 751,959 | 765,941 | 765,941 | 0 |
| Instructional Staff | 1,001,979 | 1,020,527 | 1,020,610 | (83) |
| General Administration | 208,654 | 212,534 | 212,534 | 0 |
| School Administration | 1,439,616 | 1,466,385 | 1,466,385 | 0 |
| Fiscal | 554,255 | 564,561 | 564,561 | 0 |
| Business | 379,278 | 386,331 | 386,331 | 0 |
| Operations and Maintenance | 2,043,159 | 2,081,151 | 2,081,151 | 0 |
| Pupil Transportation | 1,103,552 | 1,124,072 | 1,124,072 | 0 |
| Central | 3,454 | 3,518 | 3,518 | 0 |
| Extracurricular Activities | 390,985 | 398,255 | 398,255 | 0 |
| Capital Outlay | 91 | 93 | 93 | 0 |
| Total Expenditures | 20,845,462 | 21,236,708 | 21,233,076 | 3,632 |
| Excess of Revenues Over (Under) Expenditures | 849,310 | 224,788 | 228,420 | 3,632 |
| Other financing sources (uses): | | | | |
| Proceeds from Sale of Capital Assets | 4,217 | 4,172 | 4,172 | 0 |
| Advances In | 11,585 | 11,800 | 11,800 | 0 |
| Advances (Out) | (14,152) | 0 | (14,000) | (14,000) |
| Transfers In | 67,728 | 67,000 | 67,000 | 0 |
| Transfers (Out) | (65,777) | (67,000) | (67,000) | 0 |
| Total Other Financing Sources (Uses) | 3,601 | 15,972 | 1,972 | (14,000) |
| Net Change in Fund Balance | 852,911 | 240,760 | 230,392 | (10,368) |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 2,359,709 | 2,359,709 | 2,359,709 | 0 |
| Fund Balance End of Year | \$3,212,620 | \$2,600,469 | \$2,590,101 | (\$10,368) |

See accompanying notes to the required supplementary information.

WILMINGTON CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

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

While the 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 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

| | <u>General</u> |
|---|--------------------|
| GAAP Basis | \$1,381,312 |
| Net Adjustment for Revenue Accruals | (712,596) |
| Net Adjustment for Expenditure Accruals | 165,393 |
| Encumbrances | <u>(603,717)</u> |
| Budget Basis | <u>(\$230,392)</u> |

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON COUNTY**

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

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|----------------------------------|---------------------------|--------------------|----------------------|--------------------|---------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed through Ohio Department of Education.</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution Program | None | 10.550 | 0 | \$69,246 | \$0 | \$69,246 |
| National School Breakfast Program | 05-PU-2004 | 10.553 | 4,032 | ---- | 4,032 | ---- |
| National School Lunch | LLP4-2003 LLP4-2004 | 10.555 | 62,889 187,458 | ---- ---- | 62,889 187,458 | ---- ---- |
| Total U.S. Department of Agriculture | | | 254,379 | 69,246 | 254,379 | 69,246 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed through Ohio Department of Education.</i> | | | | | | |
| Education Consolidation and Improvement Act | | | | | | |
| Title I - FY 03 | C1-S1-03 | 84.010 | 28,379 | ---- | 50,817 | ---- |
| Title I - FY 04 | C1-S1-04 | | 434,936 | ---- | 361,218 | ---- |
| <i>Total Title I</i> | | | 463,315 | 0 | 412,035 | 0 |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | | | | | | |
| Title VI B - FY03, Autism | 6B-SA-03P | 84.027 | 35,618 | ---- | 41,360 | ---- |
| Title VI B - FY03 | 6B-SF-03P | | 10,018 | ---- | 37,593 | ---- |
| Title VI B - FY04 | 6B-SF-04 | | 365,107 | ---- | 328,257 | ---- |
| Educational Handicapped Preschool | | | | | | |
| Preschool Subsidy - FY 02 | PG-S1-02 | 84.173 | 1,832 | | 1,878 | |
| Preschool Subsidy - FY 04 | PG-S1-04 | | 10,607 | ---- | 8,693 | ---- |
| <i>Total Special Education Cluster</i> | | | 423,182 | 0 | 417,781 | 0 |
| Drug Free Schools | | | | | | |
| Drug Free Education - Subsidy - FY 04 | DR-S1-04 | | 4,860 | ---- | 4,579 | ---- |
| <i>Total Drug Free School Grants</i> | | | 4,860 | 0 | 4,579 | 0 |
| Innovative Educational Program Strategies | | | | | | |
| Educational Program Strategies | C2-S1-03 | 84.298 | 10,365 | ---- | 10,424 | ---- |
| Educational Program Strategies | C2-S1-04 | | 17,769 | ---- | 15,535 | ---- |
| <i>Total Innovative Ea</i> | | | 28,134 | 0 | 25,959 | 0 |
| Additional Programs: | | | | | | |
| Educational Technology - FY 04 | TJ-S1-04 | 84.318 | 12,405 | ---- | 14,058 | ---- |
| SchoolNet Assistance Technology | AT-S4-02 | 84.352A | (666) | ---- | 2,590 | ---- |
| Improving Teacher Quality - FY 03 | TR-S1-03 | 84.367 | ---- | ---- | 13,202 | ---- |
| Improving Teacher Quality - FY 04 | TR-S1-04 | | 144,855 | ---- | 123,207 | ---- |
| <i>Total Additional Programs</i> | | | 156,594 | 0 | 153,057 | 0 |
| Total Department of Education | | | 1,076,085 | 0 | 1,013,411 | 0 |
| <u>U.S. DEPARTMENT OF HUMAN SERVICES</u> | | | | | | |
| <i>Passed through Ohio Department of MRDD.</i> | | | | | | |
| Medical Assistance Program/CAFS | N/A | 93.778 | 47,016 | ---- | 47,016 | ---- |
| Total Department of Human Services | | | 47,016 | 0 | 47,016 | 0 |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | \$1,377,480 | \$69,246 | \$1,314,806 | \$69,246 |

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

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – COMMUNITY ALTERNATIVE FUNDING SYSTEM

Receipts for this grant are posted to the general fund. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Wilmington City School District
Clinton County
341 South Nelson Ave.
Wilmington, Ohio 45177

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 Wilmington City School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 16, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 16, 2005.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

March 16, 2005



Auditor of State Betty Montgomery

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

Wilmington City School District
Clinton County
341 South Nelson Ave.
Wilmington, Ohio 45177

Compliance

We have audited the compliance of the Wilmington City School District, Clinton County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on 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 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. We noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 16, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

March 16, 2005

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I, CFDA # 84.010; Special Education Cluster, Title VI-B, CFDA # 84.027 and 84.173 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**WILMINGTON CITY SCHOOL DISTRICT
CLINTON 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 12, 2005**