



**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds .....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	17
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	18
Notes to the Basic Financial Statements .....	19
Schedule of Federal Awards Receipts and Expenditures.....	43
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	45
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	47
Schedule of Findings – OMB Circular A-133 § .505.....	49
Schedule of Prior Audit Findings - OMB Circular A-133 § .315(b).....	54

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 3, during the year ended June 30, 2005, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

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 Wellston City School District, Jackson County, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the result of our audit.

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

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



**Betty Montgomery**  
Auditor of State

April 10, 2006

## Wellston City School District, Ohio

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

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

### **FINANCIAL HIGHLIGHTS**

**Key financial highlights for the fiscal year 2005 are as follows:**

- Net assets of governmental activities decreased \$624,567.
- General revenues accounted for \$12,228,675 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,863,919, 24 percent of total revenues of \$16,092,594.
- Total assets of governmental activities decreased \$1,057,787 primarily due to the depreciation of capital assets and reductions in cash and cash equivalents in segregated accounts.
- The School District had \$16,717,161 in expenses related to governmental activities; only \$3,863,919 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$12,228,675 were not adequate to provide for these programs.
- The School District's only major fund is the General Fund. The General Fund had \$12,498,269 in revenues and \$12,754,902 in expenditures. The General Fund's balance decreased \$433,293.

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

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

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

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

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

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

## Wellston City School District, Ohio

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

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

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

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

#### *Fund Financial Statements*

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

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

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

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets for 2005 compared to 2004.



**Wellston City School District, Ohio**

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

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**Table I  
Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current and Other Assets	\$11,904,175	\$12,374,813
Capital Assets	<u>35,838,117</u>	<u>36,425,266</u>
Total Assets	<u>47,742,292</u>	<u>48,800,079</u>
<b>Liabilities</b>		
Long-Term Liabilities	3,937,462	4,187,002
Other Liabilities	<u>4,801,615</u>	<u>4,985,295</u>
Total Liabilities	<u>8,739,077</u>	<u>9,172,297</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	32,644,271	33,059,078
Restricted	3,686,440	3,581,075
Unrestricted	<u>2,672,504</u>	<u>2,987,629</u>
Total Net Assets	<u>\$39,003,215</u>	<u>\$39,627,782</u>

Total assets decreased \$1,057,787. The majority of this decrease was due to reductions in cash in segregated accounts and the depreciation of capital assets. The decrease in cash and cash equivalents in segregated accounts is entirely attributable to the completion of the District's Classroom Facilities construction project and the payment of escrow to the different entities involved with the construction project.

Total liabilities decreased \$433,220. This decrease is due to the completion of the School Districts Classroom Facilities construction projects and the corresponding decreases in both accounts, contracts, and retainage payable, and decreases in intergovernmental payables. These decreases were, however, offset by increases in deferred revenues, and vacation benefits payable.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, and comparisons to fiscal year 2004.

**Wellston City School District, Ohio**

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

**Table 2  
Changes in Net Assets**

	Governmental Activities	
	2005	2004
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$710,880	\$540,484
Operating Grants, Contributions and Interest	3,115,912	3,356,353
Capital Grants, Contributions and Interest	37,127	122,006
	<u>3,863,919</u>	<u>4,018,843</u>
General Revenue		
Property Taxes	2,615,349	2,857,930
Grants and Entitlements	9,324,007	9,066,689
Investment Earnings	104,244	60,388
Miscellaneous	185,075	69,962
	<u>12,228,675</u>	<u>12,054,969</u>
Total Revenues	<u>16,092,594</u>	<u>16,073,812</u>
<b>Program Expenses</b>		
Instruction		
Regular	6,908,884	6,844,390
Special	2,584,178	2,519,122
Vocational	255,086	306,219
Adult/Continuing	0	19,140
Support Services		
Pupils	486,156	613,465
Instructional Staff	1,019,144	1,218,682
Board of Education	310,566	326,011
Administration	1,359,628	1,169,332
Fiscal	422,827	383,604
Operation and Maintenance of Plant	919,054	1,313,609
Pupil Transportation	967,024	936,446
Central	89,728	89,041
Food Service Operations	803,396	792,347
Community Services	80,597	28,462
Extracurricular Activities	344,858	510,976
Interest and Fiscal Charges	166,035	174,776
Total Expenses	<u>16,717,161</u>	<u>17,245,622</u>
Decrease in Net Assets	(624,567)	(1,171,810)
Net Assets at Beginning of Year	<u>39,627,782</u>	<u>40,799,592</u>
Net Assets at End of Year	<u>\$39,003,215</u>	<u>\$39,627,782</u>

While the School District was able to maintain a stable financial position from fiscal year 1994 through fiscal year 2005, the economic pressures of academic requirements has outpaced available resources. Revenues have remained relatively stagnant for the previous two fiscal years. While expenses did decrease \$528,461, revenue sources were still unable to keep pace with expenses in fiscal year 2005.

# Wellston City School District, Ohio

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

The decrease in expenses is attributable to the School District having two buildings demolished in 2004 and repairs and improvements made in 2004 to the HVAC systems at Bundy Elementary and the High School.

Net assets of the School District's governmental activities decreased by \$624,567 in fiscal year 2005. Program revenues of \$3,863,919 and general revenues of \$12,228,675 did not offset total governmental expenses of \$16,717,161. Program revenues supported 23 percent of total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 98 percent of total general revenue. Grants and entitlements, alone, represent 76 percent of general revenues. Interest income, and miscellaneous revenue account for the remaining 2 percent.

Instruction comprises approximately 58 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 33 percent. The remaining 9 percent of program expenses is used for other obligations of the School District such as non-instructional service, food service operations, extracurricular activities, and interest and fiscal charges.

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

**Table 3**  
**Governmental Activities**

	2005 Total Cost of Services	2005 Net Cost of Services	2004 Total Cost of Services	2004 Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$6,908,884	\$5,721,813	\$6,844,390	\$5,557,378
Special	2,584,178	1,564,548	2,519,122	1,526,809
Vocational	255,086	177,905	306,219	248,447
Adult/Continuing	0	0	19,140	19,140
Support Services:				
Pupil	486,156	273,026	613,465	530,413
Instructional Staff	1,019,144	776,316	1,218,682	941,774
Board of Education	310,566	307,620	326,011	202,596
Administration	1,359,628	1,267,374	1,169,332	979,697
Fiscal	422,827	410,376	383,604	350,132
Operation and Maintenance of Plant	919,054	889,688	1,313,609	1,239,072
Pupil Transportation	967,024	901,520	936,446	860,758
Central	89,728	89,598	89,041	83,516
Food Service Operations	803,396	88,407	792,347	143,248
Community Services	80,597	46,557	28,462	(25,259)
Extracurricular Activities	344,858	172,459	510,976	394,282
Interest and Fiscal Charges	166,035	166,035	174,776	174,776
Totals	<u>\$16,717,161</u>	<u>\$12,853,242</u>	<u>\$17,245,622</u>	<u>\$13,226,779</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 73 percent of instruction activities are supported through taxes and other general revenues.

# Wellston City School District, Ohio

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

## THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,270,921 and expenditures of \$16,309,244.

### *General Fund Budgeting Highlights*

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

During the course of fiscal 2005, the School District amended its general fund appropriations although none the amendments were significant. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis estimated revenue was \$12,581,937, above original estimates of \$12,217,510. This \$364,427 difference was due to deflated intergovernmental estimates, based on the State's budget reduction and higher than expected tuition and fee revenues due to increased participation from other school districts in our special education offerings.

The School District's ending unobligated general fund balance was \$3,950,617.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

At the end of fiscal year 2005, the School District had \$35,838,117 invested in land, buildings, furniture and equipment, vehicles, and textbooks. Table 4 shows fiscal year 2005 balances compared to 2004.

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

	<u>Government Activities</u>	
	<u>2005</u>	<u>2004</u>
Land and Land Improvements	\$313,189	\$313,189
Buildings and Improvements	31,682,086	32,323,300
Furniture and Equipment	2,221,300	2,314,499
Vehicles	575,523	413,869
Textbooks	<u>1,046,019</u>	<u>1,060,409</u>
<b>Totals</b>	<b><u>\$35,838,117</u></b>	<b><u>\$36,425,266</u></b>

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

### *Debt*

At June 30, 2005, the School District had general obligation bonds outstanding of \$3,100,000 and \$93,846 in capital leases. The lease is for fitness equipment. For additional information on debt, see note 15 to the basic financial statements.

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

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

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### **CURRENT ISSUES**

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

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

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

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

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

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

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**Wellston City School District, Ohio**

*Statement of Net Assets*

*June 30, 2005*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,796,386
Cash and Cash Equivalents in Segregated Accounts	50,187
Property Taxes Receivable	3,326,665
Accounts Receivable	1,159
Intergovernmental Receivable	532,466
Prepaid Items	179,256
Materials and Supplies Inventory	18,056
Nondepreciable Capital Assets	313,189
Depreciable Capital Assets, Net	<u>35,524,928</u>
<i>Total Assets</i>	<u>47,742,292</u>
<b>Liabilities</b>	
Accounts Payable	108,683
Contracts Payable	73,427
Accrued Wages and Benefits Payable	1,211,252
Retainage Payable	40,389
Accrued Interest Payable	13,101
Intergovernmental Payable	430,968
Deferred Revenue	2,809,372
Vacation Benefits Payable	114,423
Long-Term Liabilities:	
Due within One Year	248,173
Due in More than One Year	<u>3,689,289</u>
<i>Total Liabilities</i>	<u>8,739,077</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	32,644,271
Restricted for:	
Budget Stabilization	56,688
Bus Purchases	192,079
Other Purposes	2,105,345
Debt Service	605,879
Capital Projects	726,449
Unrestricted	<u>2,672,504</u>
<i>Total Net Assets</i>	<u><u>\$39,003,215</u></u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2005

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$6,908,884	\$295,796	\$891,275	\$0	(\$5,721,813)
Special	2,584,178	0	1,019,630	0	(1,564,548)
Vocational	255,086	0	77,181	0	(177,905)
Support Services:					
Pupils	486,156	0	213,130	0	(273,026)
Instructional Staff	1,019,144	5,361	237,467	0	(776,316)
Board of Education	310,566	0	2,946	0	(307,620)
Administration	1,359,628	0	92,254	0	(1,267,374)
Fiscal	422,827	0	12,451	0	(410,376)
Operation and Maintenance of Plant	919,054	2,120	16,917	10,329	(889,688)
Pupil Transportation	967,024	383	38,323	26,798	(901,520)
Central	89,728	0	130	0	(89,598)
Operation of Non-Instructional Services:					
Food Service Operations	803,396	268,071	446,918	0	(88,407)
Community Services	80,597	0	34,040	0	(46,557)
Extracurricular Activities	344,858	139,149	33,250	0	(172,459)
Interest and Fiscal Charges	166,035	0	0	0	(166,035)
<b>Totals</b>	<b>\$16,717,161</b>	<b>\$710,880</b>	<b>\$3,115,912</b>	<b>\$37,127</b>	<b>(12,853,242)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					2,015,786
Debt Service					322,456
Capital Projects					230,748
Other Purposes					46,359
Grants and Entitlements not Restricted to Specific Programs					9,324,007
Investment Earnings					104,244
Miscellaneous					185,075
<i>Total General Revenues</i>					<u>12,228,675</u>
<i>Change in Net Assets</i>					(624,567)
<i>Net Assets at Beginning of Year</i>					<u>39,627,782</u>
<i>Net Assets at End of Year</i>					<u><u>\$39,003,215</u></u>

See accompanying notes to the basic financial statements



**Wellston City School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2005*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,784,008	\$3,763,611	\$7,547,619
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	248,767	0	248,767
Cash and Cash Equivalents in Segregated Accounts	0	50,187	50,187
Receivables:			
Taxes	2,630,089	696,576	3,326,665
Accounts	1,097	62	1,159
Intergovernmental	135,945	396,521	532,466
Interfund	457,685	0	457,685
Materials and Supplies Inventory	0	18,056	18,056
Prepaid Items	145,587	33,669	179,256
<b>Total Assets</b>	<b><u>\$7,403,178</u></b>	<b><u>\$4,958,682</u></b>	<b><u>\$12,361,860</u></b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$78,464	\$30,219	\$108,683
Contracts Payable	11,970	61,457	73,427
Accrued Wages and Benefits Payable	970,613	240,639	1,211,252
Retainage Payable	0	40,389	40,389
Interfund Payable	0	457,685	457,685
Intergovernmental Payable	366,608	64,360	430,968
Deferred Revenue	2,636,787	1,027,859	3,664,646
<b>Total Liabilities</b>	<b><u>4,064,442</u></b>	<b><u>1,922,608</u></b>	<b><u>5,987,050</u></b>
<b>Fund Balances</b>			
Reserved for Encumbrances	61,380	280,417	341,797
Reserved for Budget Stabilization	56,688	0	56,688
Reserved for Bus Purchases	192,079	0	192,079
Reserved for Property Taxes	83,842	21,515	105,357
Unreserved, Undesignated, Reported in:			
General Fund	2,944,747	0	2,944,747
Special Revenue Funds	0	1,771,764	1,771,764
Capital Projects Funds	0	394,680	394,680
Debt Service Fund	0	567,698	567,698
<b>Total Fund Balances</b>	<b><u>3,338,736</u></b>	<b><u>3,036,074</u></b>	<b><u>6,374,810</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$7,403,178</u></b>	<b><u>\$4,958,682</u></b>	<b><u>\$12,361,860</u></b>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2005*

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<b>Total Governmental Fund Balances</b>	<b>\$6,374,810</b>
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***Amounts reported for governmental activities in the  
statement of net assets are different because***

Capital Assets used in governmental activities are not financial resources are not reported in the funds	35,838,117
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Other long-term assets are not available to pay for  
current-period expenditures and therefore are not  
reported in the funds:

Property Taxes	411,936	
Accounts Receivable	6,239	
Grants	<u>437,099</u>	855,274

Long-term liabilities are not due and payable in the  
current period and therefore are not reported in the funds:

School Construction Bonds	(3,100,000)	
Accrued Interest Payable	(13,101)	
Capital Leases Payable	(93,846)	
Sick Leave Benefits Payable	(743,616)	
Vacation Benefits Payable	<u>(114,423)</u>	<u>(4,064,986)</u>

Net Assets of Governmental Activities	<u><u>\$39,003,215</u></u>
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See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$2,065,432	\$612,303	\$2,677,735
Intergovernmental	9,868,034	2,659,759	12,527,793
Investment Earnings	104,244	30,557	134,801
Tuition and Fees	277,111	19,146	296,257
Charges for Services	0	268,796	268,796
Donations	0	40,876	40,876
Extracurricular	0	139,149	139,149
Miscellaneous	183,448	2,066	185,514
<i>Total Revenues</i>	<u>12,498,269</u>	<u>3,772,652</u>	<u>16,270,921</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,802,147	862,594	6,664,741
Special	1,943,650	526,399	2,470,049
Vocational	261,534	0	261,534
Support Services:			
Pupils	236,177	239,539	475,716
Instructional Staff	646,111	316,813	962,924
Board of Education	309,816	750	310,566
Administration	1,205,317	101,778	1,307,095
Fiscal	387,434	25,014	412,448
Operation and Maintenance of Plant	799,589	40,405	839,994
Pupil Transportation	808,897	12,001	820,898
Central	80,294	146	80,440
Operation of Non-Instructional Services:			
Food Service Operations	0	716,685	716,685
Community Services	0	77,535	77,535
Extracurricular Activities	197,197	145,789	342,986
Capital Outlay	0	226,920	226,920
Debt Service:			
Principal Retirement	72,342	100,000	172,342
Interest and Fiscal Charges	4,397	161,974	166,371
<i>Total Expenditures</i>	<u>12,754,902</u>	<u>3,554,342</u>	<u>16,309,244</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(256,633)</u>	<u>218,310</u>	<u>(38,323)</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Asset	4,500	0	4,500
Transfers In	0	186,074	186,074
Transfers Out	(181,160)	(4,914)	(186,074)
<i>Total Other Financing Sources (Uses)</i>	<u>(176,660)</u>	<u>181,160</u>	<u>4,500</u>
<i>Net Change in Fund Balance</i>	(433,293)	399,470	(33,823)
<i>Fund Balances at Beginning of Year - Restated (See Note 3)</i>	<u>3,772,029</u>	<u>2,636,604</u>	<u>6,408,633</u>
<i>Fund Balances at End of Year</i>	<u>\$3,338,736</u>	<u>\$3,036,074</u>	<u>\$6,374,810</u>

See accompanying notes to the basic financial statements

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

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**Net Change in Fund Balances - Total Governmental Funds** (\$33,823)

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

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

Capital Asset Additions	482,024	
Depreciation Expense	1,041,239	(559,215)

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

Proceeds from the Sale of Capital Assets	(4,500)	
Loss on Disposal of Capital Assets	(23,434)	(27,934)

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

Grants	(122,180)	
Tuition and Fees	6,239	
Delinquent Taxes	(62,386)	(178,327)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 172,342

In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is expended when due. 336

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:

Sick Leave Benefits Payable	77,198	
Vacation Benefits Payable	(75,144)	2,054

*Change in Net Assets of Governmental Activities* (\$624,567)

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
**General Fund**  
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$2,193,937	\$2,210,192	\$2,210,192	\$0
Intergovernmental	9,754,798	9,888,696	9,888,696	0
Investment Earnings	55,000	92,342	104,244	11,902
Tuition and Fees	177,000	278,053	278,053	0
Rent	3,710	0	0	0
Miscellaneous	33,065	112,656	112,666	10
<i>Total Revenues</i>	<u>12,217,510</u>	<u>12,581,939</u>	<u>12,593,851</u>	<u>11,912</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,810,283	5,966,431	5,966,431	0
Special	1,918,559	1,944,779	1,944,779	0
Vocational	270,595	274,293	274,293	0
Support Services:				
Pupils	234,961	238,172	238,172	0
Instructional Staff	716,585	726,378	726,378	0
Board of Education	318,456	322,808	322,808	0
Administration	1,187,419	1,203,647	1,203,647	0
Fiscal	388,300	393,607	393,607	0
Operation and Maintenance of Plant	859,900	871,652	871,652	0
Pupil Transportation	955,562	968,621	968,621	0
Central	80,102	81,197	81,197	0
Extracurricular Activities	204,034	206,822	206,822	0
<i>Total Expenditures</i>	<u>12,944,756</u>	<u>13,198,407</u>	<u>13,198,407</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(727,246)</u>	<u>(616,468)</u>	<u>(604,556)</u>	<u>11,912</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	4,510	4,500	(10)
Refund of Prior Year Expenditures	0	135	135	0
Advances In	250,000	273,613	273,613	0
Refund of Prior Year Receipts	(3,292)	0	0	0
Transfers Out	(2,587)	(181,160)	(181,160)	0
Advances Out	(110,017)	(125,121)	(125,121)	0
<i>Total Other Financing Sources (Uses)</i>	<u>134,104</u>	<u>(28,023)</u>	<u>(28,033)</u>	<u>(10)</u>
<i>Net Change in Fund Balance</i>	(593,142)	(644,491)	(632,589)	11,902
<i>Fund Balance at Beginning of Year</i>	4,297,800	4,297,800	4,297,800	0
Prior Year Encumbrances Appropriated	285,406	285,406	285,406	0
<i>Fund Balance at End of Year</i>	<u>\$3,990,064</u>	<u>\$3,938,715</u>	<u>\$3,950,617</u>	<u>\$11,902</u>

See accompanying notes to the basic financial statements

**Wellston City School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2005*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$52,309</u></u>
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**Liabilities**

Due to Students	<u><u>\$52,309</u></u>
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See accompanying notes to the basic financial statements

## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Wellston City School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 63 classified employees, 131 certified teaching personnel, and 6 administrators, who provide services to 1,774 students and other community members.

#### **Reporting Entity**

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

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

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

The following activities are included within the reporting entity:

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

### Note 2 - Summary of Significant Accounting Policies

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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### **A. Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The statements usually distinguish between those activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

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

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

### **B. Fund Accounting**

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

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

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

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



## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

### **C. Measurement Focus**

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

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

### **D. Basis of Accounting**

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

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

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

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

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

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

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

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

### **E. Cash and Cash Equivalents**

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

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$104,244, which includes \$51,022 assigned from other School District funds.

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

**Wellston City School District, Ohio**

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

**F. Restricted Assets**

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which the services are consumed.

**H. Inventory**

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

**I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

**J. Interfund Activity**

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

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

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

### ***K. Compensated Absences***

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

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

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

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

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

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

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

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

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

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

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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### **O. Estimates**

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

### **P. Net Assets**

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

The government-wide statement of net assets reports \$3,686,440 of restricted net assets, of which \$1,424,862 is restricted by enabling legislation.

Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted for specific purposes.

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

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

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

### **R. Budgetary Process**

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

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

## Wellston City School District, Ohio

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

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

### Note 3 – Changes in Accounting Principal and Restatement of Prior Year Balances

For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefits Expenditures/Expenses and Liabilities by Cost Sharing Employers", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposit and investment risks.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation affected the fund balances of governmental funds, but had no effect on net assets. The effect of the implementation of this technical bulletin is presented below.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

In fiscal year 2004, the School District mistakenly accounted for the purchase of school buses in the Permanent Improvement Capital Projects Fund that should have been presented in the General Fund. The effect of this change is presented below.

	General	Other Governmental	Total Governmental Funds
Fund Balances, June 30, 2004	\$4,071,032	\$2,573,245	\$6,644,277
GASB Technical Bulletin 2004-02 Restatement	(173,375)	(62,269)	(235,644)
Accounts Payable Restatement	(125,628)	125,628	0
Restated Fund Balances, June 30, 2004	<u>\$3,772,029</u>	<u>\$2,636,604</u>	<u>\$6,408,633</u>

## Wellston City School District, Ohio

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

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### Note 4 – Fund Deficits

The following funds had deficit fund balances as of June 30, 2005:

	<u>Defecit</u>
<b>Special Revenue Funds:</b>	
Food Service	\$45,523
Public Preschool	284
Title VI-B Idea	99,042
Handicapped Preschool	3,735

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

### Note 5 - Budgetary Basis of Accounting

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

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

## Wellston City School District, Ohio

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

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

Net Change in Fund Balance	
GAAP Basis	(\$433,293)
Revenue Accruals	95,717
Expenditure Accruals	(282,433)
Prepaid Items:	
Beginning of Year	66,673
End of Year	(145,587)
Advances	148,492
Encumbrances	<u>(82,158)</u>
Budget Basis	<u><u>(\$632,589)</u></u>

### Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;



## Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,265,400 of the School District's bank balance of \$2,465,400 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

**Investments** As of June 30, 2005, the School District's investment in STAROhio had an average maturity of thirty days and a fair value of \$5,598,636.

**Interest Rate Risk** The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Rate Risk** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard setting service. The School District has no investment policy that would further limit its investment choices.

### Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30 is recognized as revenue.

The amount available as an advance at June 30, 2005, was \$83,842 in the General Fund, \$10,441 in the Bond Retirement Debt Service Fund, \$9,492 in the Permanent Improvements Capital Projects Fund, and \$1,582 in the Classroom Facilities Maintenance Special Revenue Fund.

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

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

	2004 Second Half Collections		2005 First Half Collections	
Real Property	\$77,949,150	73.99%	\$78,983,570	73.61%
Public Utility Tangible Personal Property	20,153,304	19.13%	21,071,776	19.64%
Tangible Personal Property	7,250,970	6.88%	7,238,190	6.75%
Total	\$105,353,424	100.00%	\$107,293,536	100.00%
 Tax Rate per \$1,000 of Assessed Valuation	 \$27.30		 \$27.30	

## Wellston City School District, Ohio

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

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### Note 8 - Receivables

Receivables at June 30, 2005, consisted of property taxes, accounts (rents, student fees and tuition), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Community Alternative Funding System	\$112,885
Student Led Initiative Grant	475
Summer Intervention	14,434
Title VI-B Idea	53,548
Title I	138,252
Handicapped Preschool	5,159
Title II-A	29,884
Ohio School Facilities Commission Grant	154,769
Miscellaneous	<u>23,060</u>
Total	<u>\$532,466</u>

### Note 9 - Risk Management

#### A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with the Indiana Insurance Company for property, boiler, general liability, fleet, and professional liability insurance. The types and amounts of coverage provided are as follows:

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$49,969,281
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	2,000,000
Products - Completed Operations Aggregate Limit	0	2,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Errors and Omissions:		
Each Occurrence	2,500	1,000,000
Aggregate Limit	2,500	1,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	25,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2004.

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

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**Wellston City School District, Ohio**

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

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/05</u>
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$313,189	\$0	\$0	\$313,189
Depreciable Capital Assets:				
Buildings and Improvements	34,346,576	0	0	34,346,576
Furniture, Fixtures, and Equipment	3,131,881	231,922	87,396	3,276,407
Vehicles	1,085,778	250,102	0	1,335,880
Textbooks	1,284,221	0	0	1,284,221
Total Depreciable Capital Assets	<u>39,848,456</u>	<u>482,024</u>	<u>87,396</u>	<u>40,243,084</u>
Less Accumulated Depreciation:				
Buildings and Improvements	2,023,276	641,214	0	2,664,490
Furniture, Fixtures, and Equipment	817,382	297,187	59,462	1,055,107
Vehicles	671,909	88,448	0	760,357
Textbooks	223,812	14,390	0	238,202
Total Accumulated Depreciation	<u>3,736,379</u>	<u>1,041,239</u> *	<u>59,462</u>	<u>4,718,156</u>
Total Capital Assets being Depreciated, Net	<u>36,112,077</u>	<u>(559,215)</u>	<u>27,934</u>	<u>35,524,928</u>
Capital Assets, Net	<u>\$36,425,266</u>	<u>(\$559,215)</u>	<u>\$27,934</u>	<u>\$35,838,117</u>

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

Instruction:	
Regular	\$325,196
Special	135,161
Vocational	12,706
Support Services:	
Pupils	38,025
Instructional Staff	88,665
Administration	76,051
Fiscal	12,800
Operation and Maintenance of Plant	55,849
Pupil Transportation	172,095
Central	4,235
Food Service Operation	114,349
Community Services	4,235
Extracurricular Activities	1,872
Total Depreciation Expense	<u>\$1,041,239</u>

## Wellston City School District, Ohio

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$167,881, \$153,879, and \$151,282, respectively; 47.49 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

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

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

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

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

## Wellston City School District, Ohio

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$873,409, \$795,675, and \$785,944 respectively; 83.52 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$0 made by the School District and \$3,816 made by the plan members.

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

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

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

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$67,185 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

## Wellston City School District, Ohio

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$78,329 to fund health care benefits, including the surcharge.

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

#### **Note 13- Employee Benefits**

##### ***A. Compensated Absences***

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

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

##### ***B. Insurance Benefits***

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

Health insurance is provided by United Healthcare. Monthly premiums for this coverage are \$1,268.37 for family coverage and \$425.70 for single coverage. Dental and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$42.63 for family coverage and \$17.12 for single coverage. The School District pays 99% of both family and single coverage premiums.

#### **Note 14 – Capitalized Leases**

The School District had entered into a lease agreement for fitness equipment. This lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2005 totaled \$72,342 in the governmental funds. The agreements provide for minimum annual lease payments as follows:



**Wellston City School District, Ohio**

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

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$76,739
2007	<u>19,185</u>
Total Minimum Lease Payments	95,924
Less: Amount Representing Interest	<u>(2,078)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$93,846</u></u>

The equipment has been capitalized in the amount of \$218,901, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2005, was \$38,308, leaving a remaining book value of \$180,593.

**Note 15 – Long Term Obligations**

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

	<u>Outstanding 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/05</u>	<u>Due in One Year</u>
<b>Governmental Activities:</b>					
1999 3.30% - 5.85% School Construction General					
Obligation Bonds	\$3,200,000	\$0	\$100,000	\$3,100,000	\$105,000
Capital Leases	166,188	0	72,342	93,846	74,766
Sick Leave Benefits	<u>820,814</u>	<u>94,841</u>	<u>172,039</u>	<u>743,616</u>	<u>68,407</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$4,187,002</u></u>	<u><u>\$94,841</u></u>	<u><u>\$344,381</u></u>	<u><u>\$3,937,462</u></u>	<u><u>\$248,173</u></u>

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

**Wellston City School District, Ohio**

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

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$105,000	\$157,623	\$262,623
2007	115,000	152,916	267,916
2008	120,000	147,745	267,745
2009	125,000	142,263	267,263
2010	135,000	136,413	271,413
2011-2015	820,000	561,505	1,381,505
2016-2020	1,130,000	289,278	1,419,278
2021-2022	550,000	28,000	578,000
	<u>\$3,100,000</u>	<u>\$1,615,743</u>	<u>\$4,715,743</u>

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

The School District's overall legal debt margin was \$7,134,557, with an unvoted debt margin of \$107,294 at June 30, 2005.

**Note 16 - Jointly Governed Organizations**

**A. Southeast Ohio Voluntary Educational Consortium**

The Southeast Ohio Voluntary Education Consortium (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$27,398 for services provided during the fiscal year. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

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

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

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

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

---

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

The Coalition of Rural and Appalachian Schools (Coalition) consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid the Coalition \$300 for services provided during the year.

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

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Trimble Local School District's superintendent is an alternate of the SERRC Board. The School District paid the SERRC \$7,126 for services provided during the year. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

### **Note 17 - Insurance Purchasing Pool**

#### ***Ohio School Boards Association Workers' Compensation Group Rating Program***

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

**Wellston City School District, Ohio**

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

**Note 18 – Interfund Activity and Balances**

**A. Transfers**

Transfers made during fiscal year 2005 were as follows:

<b>Transfer from</b>	<b>Transfer to Other Nonmajor Governmental</b>
General Fund	\$181,160
Other Nonmajor Governmental	4,914
 Total All Funds	 <u><u>\$186,074</u></u>

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

**B. Interfund Balances**

Interfund Balances at June 30, 2005, consisted of the following for services provided by the General Fund:

	Interfund Receivables	Interfund Payables
<b>General Fund</b>	\$457,685	\$0
<b>Other Governmental Funds:</b>		
Bond Retirement	0	6,395
Food Service	0	53,500
Uniform School Supply	0	2,877
Public School Support	0	1,723
Athletics	0	16,120
Auxiliary	0	250
Summer Intervention	0	2,780
Title VI-B Idea	0	157,845
Title I	0	153,771
Title V	0	16,447
Drug Free Schools	0	2,836
Handicapped Preschools	0	1,175
Title II-A	0	41,966
 Total Other Governmental Funds	 <u>0</u>	 <u>457,685</u>
 Total All Funds	 <u><u>\$457,685</u></u>	 <u><u>\$457,685</u></u>

These interfund receivables/payables are due to time lags between the dates interfund goods and services are provided, transactions recorded in the accounting system, and payments between funds were made. All of these amounts are expected to be received within one year.

## Wellston City School District, Ohio

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

### Note 19 - Contingencies

#### A. Grants

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

#### B. Litigation

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

### Note 20 - Set-Aside Calculations

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

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of as of June 30, 2004	(\$309,249)	(\$3,200,000)	\$56,688
Current Year Set-Aside Requirement	253,547	253,547	0
Current Year Offsets	0	(61,154)	0
Qualifying Disbursements	(426,908)	(482,024)	0
Totals	<u>(\$482,610)</u>	<u>(\$3,489,631)</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$482,610)</u>	<u>(\$3,100,000)</u>	<u>\$56,688</u>
Set-Aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$56,688</u>

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

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**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<b>FEDERAL GRANTOR Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Number</b>	<b>Receipts</b>	<b>Noncash Receipts</b>	<b>Disbursements</b>	<b>Noncash Disbursements</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$0	\$81,782	\$0	\$81,782
School Breakfast Program	10.553	05-PU-04 05-PU-05	15,737 58,549		15,737 58,549	
Total School Breakfast Program			74,286	0	74,286	0
National School Lunch Program	10.555	LL-P1-05 LL-P4-04 LL-P4-05	2,323 67,734 236,969		2,323 67,734 236,969	
Total National School Lunch Program			307,026	0	307,026	0
Total Nutrition Cluster			381,312	81,782	381,312	81,782
Total United States Department of Agriculture			381,312	81,782	381,312	81,782
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-02 C1-S1-04 C1-S1-05	184,406 483,737		2,765 188,152 449,660	
Total Title I Grants to Local Educational Agencies			668,143	0	640,577	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-04 6B-SF-05	368,438		219,666 320,340	
Total Special Education - Grants to States			368,438	0	540,006	0
Special Education Preschool Grants	84.173	PG-S1-03 PG-S1-04 PG-S1-05	3,982 14,291		4,199 4,269 15,465	
Total Special Education Preschool Grants			18,273	0	23,933	0
Total Special Education Cluster			386,711	0	563,939	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-04 DR-S1-05	7,030 13,536		8,367 13,536	
Total Safe and Drug-Free Schools and Communities - State Grants			20,566	0	21,903	0
Innovative Education Program Strategies	84.298	C2-S1-04 C2-S1-05	1,383 8,996		1,626 8,626	
Total Innovative Education Program Strategies			10,379	0	10,252	0
Education Technology State Grants	84.318	TJ-S1-03 TJ-S1-04 TJ-S1-05	7,876 14,729		12,284 12,336 14,729	
Total Education Technology State Grants			22,605	0	39,349	0
Comprehensive School Reform Demonstration	84.332	RF-S1-03 RF-S1-04 RF-S1-05	43,224		53,702 22,372 59,922	
Total Comprehensive School Reform Demonstration			43,224	0	135,996	0
Rural Education Grants	84.358	RU-S1-04 RU-S1-05	13,876		35,021 14,432	
Total Rural Education Grants			13,876	0	49,453	0
Improving Teacher Quality State Grants	84.367	TR-S1-03 TR-S1-04 TR-S1-05	29,662 116,743		60,749 22,849 132,309	
Total Improving Teacher Quality State Grants			146,405	0	215,907	0
Total United States Department of Education			1,311,909	0	1,677,376	0
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778	N/A	123,142		210,003	
Total United States Department of Health and Human Services			123,142	0	210,003	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$1,816,363</b>	<b>\$81,782</b>	<b>\$2,268,691</b>	<b>\$81,782</b>

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

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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

**NOTE C – PRIOR YEAR CORRECTIONS**

The School District made correcting entries to the 2005 federal schedule to report expenditures previously omitted from the 2003 and 2004 federal schedules due to posting errors in the underlying ledgers. The correcting entries were made to the accounting ledgers so that expenditures in the accounting ledgers would agree to the grant final expenditure reports. As such, the amounts of the correcting entries were omitted from the previous federal schedules and reported on the 2005 federal schedule as follows:

<u>Grant</u>	<u>Expenditures Omitted from 2003 Federal Schedule</u>	<u>Expenditures Omitted from 2004 Federal Schedule</u>	<u>Corrections on the 2005 Federal Schedule</u>
Title I-Grants to Local Educational Agencies - CFDA #84.010		\$93,379	\$93,379
Safe and Drug Free Schools and Communities - CFDA #84.186		8,367	8,367
Rural Education Grant - CFDA #84.358	\$35,021		35,021
Improving Teacher Quality State Grants - CFDA #84.367	60,749		60,749





**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 10, 2006, wherein we noted the School District adopted Governmental Accounting Standards Board Statement 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the basic financial statement and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 2005-002 through 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School District's management dated April 10, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the School District's management dated April 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

April 10, 2006



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the compliance of Wellston City School District, Jackson County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

**Internal Control Over Compliance**

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

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Wellston City School District  
Jackson County  
Independent Accountants' Report on Compliance with Requirements Applicable  
To Each Major Federal Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133

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

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

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

**Betty Montgomery**  
Auditor of State

April 10, 2006

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Ohio Rev. Code Section 9.38 requires that public money must be deposited with the treasurer of the public office or to a designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars.

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

Wellston City School District's Student Activity Handbook ("Handbook") page 16, sections 4.1 and 4.2 states that the activity advisor/coach is responsible for collecting or supervising the collection of all money collected during that day and depositing it with the Treasurer. This should be completed between 3:00 PM and 3:45 PM with the Treasurer's office and must be done once every 24 hours. No money is to be left in the building unsecured during the day or kept in the building overnight. All receipts must be deposited with the Treasurer's office on a daily basis. Also, it is the policy of the School District for the Athletic Director to deposit gate receipts at the bank immediately following a home game or athletic event.

Monies collected from several student activity fundraisers were not deposited to the Treasurer's office within 24 hours. Per review of the Rockin' Rockets, Middle School Chorus, Class of 2006, Class of 2005, and Family, Career, and Community Leaders of America (FCCLA) records, deposits were not made in a timely manner in 64% of the deposits tested.

Additionally, six percent of the gate receipts tested were not deposited in a timely manner. This could allow errors and/or irregularities to occur and remain undetected for an extended period of time.

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

**FINDING NUMBER 2005-002**

**Reportable Condition**

Page 9, Section 31 of the Handbook states that all requests for fund-raising projects must be submitted on a Request for Fund Raising Form. These forms should be completed and submitted for approval a month in advance of the planned commencement of the fund-raiser.

Page 10, Section 3.5.5 of the Handbook states that activity advisors must issue receipts for all money received from students.

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**FINDING NUMBER 2005-002  
(Continued)**

**Reportable Condition (Continued)**

Page 10, Section 3.6.1 of the Handbook states that a Sales Project Profit Statement Form must be completed at the end of each project. The form must be completed and filed with the principal (with a copy to the Treasurer) when the fundraising project is complete. Additional sales projects will not be approved until the sales project statement is submitted to the principal with a copy filed with the Treasurer. Expenditure of sales project revenue will not be permitted until all forms are on file.

Page 10, Section 3.5.6 of the Handbook states that advisors must deposit all monies received from students with the Treasurer's office on the day received. Under no circumstances should monies be held out for cash transactions.

Per review of Student Activity records and the School District's revenue ledger, it was noted that the Class of 2005 collected receipts for a powderpuff football game and a student/ faculty volleyball game without filing the required Request for Fundraising Form.

Per review of Student Activity records and the School District's revenue ledger, it was noted that the Class of 2006 conducted two fundraisers during the audit period. There was no indication of receipts issued to students for either fundraiser. In addition, the receipts which were issued to students for class dues often were not dated, did not always include the amount paid, and were not always signed by the advisor. The Class of 2005 conducted a powderpuff football game and a student/ faculty volleyball game. There was no indication of the issuance of tickets for these games, and no ticket accountability form was filed with the Treasurer's office.

Per review of the student activity records, and testing of projects completed by the Rockin' Rockets, Middle School Chorus, Class of 2006, Class of 2005, and the Family, Career, and Community Leaders of America (FCCLA), there was no indication of completion of the Sales Project Profit Statement in 100% of the projects completed. Per review of the expenditure ledgers, expenditures were made from the proceeds of these projects.

Per review of the student activity files, it was noted that the Class of 2005 advisor paid cash for supplies in the amount of \$64.46 which was deducted from the sale of prom tickets to students.

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

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**FINDING NUMBER 2005-003**

**Reportable Condition**

Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

The Class of 2004 records contained purchase receipts from various stores, (such as; Family Dollar Store, Dollar General, Factory Card and Party Outlet), which were not processed through the School District's purchasing system. Per inquiry of the Activity Advisor, cash received by the Class of 2005 Advisor was not all deposited to the Treasurer's Office and was held and subsequently expended by the Advisor. Upon further review, these purchases appeared to be related to the Student Activity. However, the Advisor overrode the School District's purchase order process and thus eliminated an important internal control process in place over the purchasing process.

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

**FINDING NUMBER 2005-004**

**Reportable Condition**

All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices.

The School District should have a policy addressing salary allocations of employees. Salary allocations are not part of the employee contracts and are not reported in employee personnel files. As such, salary allocations per the earnings registers often did not coincide with employee job duties, and in the case of grants, did not support salary allocations reported on the Final Expenditure Reports. This has resulted in the School District Treasurer making multiple correcting entries to payroll allocations in the general ledger, when it is determined that someone is being paid from a wrong fund. However, these correcting entries do not flow through to the earnings register allocations which could result in inability to agree payroll expenditures per the payroll ledgers to the general ledger. In the case of grants, this could result in questioned costs since the underlying ledgers may not support the allocations reported on reports filed with the grantor.

We recommend the School District develop a system to track the job duties of each employee, along with the funds the employee is to be paid from. This will allow the Treasurer to verify the allocation of employees to the various funds and grants throughout the school year. We also recommend the Grant Coordinator maintain documentation of employees paid from grant funds within the grant files each year. The tracking system should be periodically updated throughout the school year as employees job duties change.



**JACKSON COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**  
**(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Section 9.38 was relating to various student activity receipts not being deposited in a timely manner	No	Not Corrected. Repeated as Finding 2005-001
2004-002	Ohio Rev. Code Section 5705.10 was relating to negative fund balances throughout the year	Yes	Corrected
2004-003	Student Activity Handbook was cited for not generating duplicate receipts	No	Not Corrected. Repeated as Finding 2005-002
2004-004	Reportable Condition relating to cash collections by the Class of 2004 not being deposited with the Treasurer and being subsequently expended overriding purchase order requirements of the District.	No	Not Corrected. Repeated as Finding 2005-003



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**WELLSTON CITY SCHOOL DISTRICT  
JACKSON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 30, 2006**