

Gallipolis City School District

Gallia County, Ohio

Basic Financial Statements

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

528 S. WEST STREET, P.O. Box 687

PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA
Auditor of State

Board of Education
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

We have reviewed the *Independent Auditor's Report* of the Gallipolis City School District, Gallia County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Gallipolis City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 11, 2007

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Gallipolis City School District
 Gallia County, Ohio
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BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

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

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

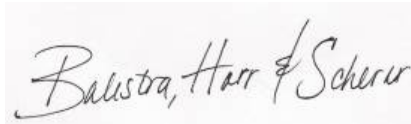
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$19,587,055 which represents a 458.72% increase from 2005.
- General revenues accounted for \$35,682,177 in revenue or 87.21% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,233,921 or 12.79% of total revenues of \$40,916,098.
- The District had \$21,329,043 in expenses related to governmental activities; only \$5,233,921 was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$35,682,177 were adequate to provide for these programs.
- The District's had three major governmental funds during fiscal 2006. The general fund had \$16,412,684 in revenues and other financing sources and \$15,870,975 in expenditures. During fiscal 2006, the general fund's fund balance increased \$533,858 from \$361,954 to \$895,812.
- The Building fund had \$25,472,369 in revenues and other financing sources and \$10,102,425 in expenditures. During fiscal 2006, the building fund's fund balance increased \$15,369,944 to \$15,369,944.
- The Classroom facilities fund had \$26,476,819 in revenues and other financing sources and \$15,582,775 in expenditures. During fiscal 2006, the classroom facilities fund's fund balance increased \$10,894,044 to \$10,894,044.

Using the Basic Financial Statements

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

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, building fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-44 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 55,510,248	\$ 9,044,715
Capital assets	<u>3,950,739</u>	<u>3,917,567</u>
Total assets	<u>59,460,987</u>	<u>12,962,282</u>
<u>Liabilities</u>		
Current liabilities	8,684,417	7,096,997
Long-term liabilities	<u>26,919,570</u>	<u>1,595,340</u>
Total liabilities	<u>35,603,987</u>	<u>8,692,337</u>
<u>Net Assets</u>		
Invested in capital assets	3,572,739	3,917,567
Restricted	21,606,898	2,280,266
Unrestricted (deficit)	<u>(1,322,637)</u>	<u>(1,927,888)</u>
Total net assets	<u>\$ 23,857,000</u>	<u>\$ 4,269,945</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$23,857,000. At year-end, restricted net assets were \$21,606,898.

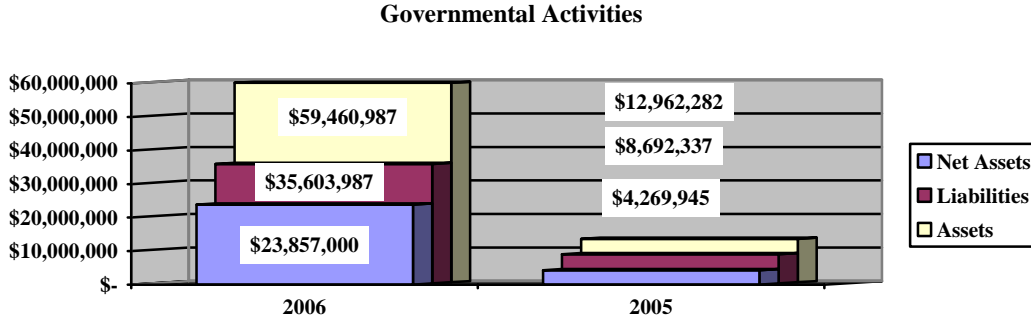
At year-end, capital assets represented 6.64% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Total net assets invested in capital assets at June 30, 2006 were \$3,572,739. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$21,606,898, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,322,637.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

The table below illustrates the District's total assets, liabilities and net assets at June 30, 2006 and 2005.



The table below shows the change in net assets for fiscal years 2006 and 2005.

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 806,980	\$ 643,865
Operating grants and contributions	3,495,043	3,439,637
Capital grants and contributions	931,898	-
General revenues:		
Property taxes	6,246,080	4,651,040
Grants and entitlements not restricted to specific programs	27,707,100	10,463,173
Investment earnings	1,352,159	132,528
Other	<u>376,838</u>	<u>66,272</u>
 Total revenues	 <u>\$ 40,916,098</u>	 <u>\$ 19,396,515</u>

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Change in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,543,713	\$ 8,544,607
Special	2,968,642	2,982,893
Vocational	327,859	378,976
Support services:		
Pupil	959,732	872,216
Instructional staff	1,150,599	1,127,111
Board of education	54,616	61,971
Administration	1,642,549	1,538,863
Fiscal	368,263	345,070
Operations and maintenance	1,328,471	1,198,976
Pupil transportation	1,630,589	1,472,992
Central	127,524	104,534
Operations of non-instructional services	3,148	47,575
Food service operations	617,085	572,661
Extracurricular activities	604,008	586,436
Interest and fiscal charges	<u>1,002,245</u>	<u>-</u>
Total expenses	<u>21,329,043</u>	<u>19,834,881</u>
Change in net assets	19,587,055	(438,366)
Net assets at beginning of year	<u>4,269,945</u>	<u>4,708,311</u>
Net assets at end of year	<u>\$ 23,857,000</u>	<u>\$ 4,269,945</u>

Governmental Activities

Net assets of the District's governmental activities increased \$19,587,055. Total governmental expenses of \$21,329,043 were offset by program revenues of \$5,233,921 and general revenues of \$35,682,177. Program revenues supported 24.54% of the total governmental expenses.

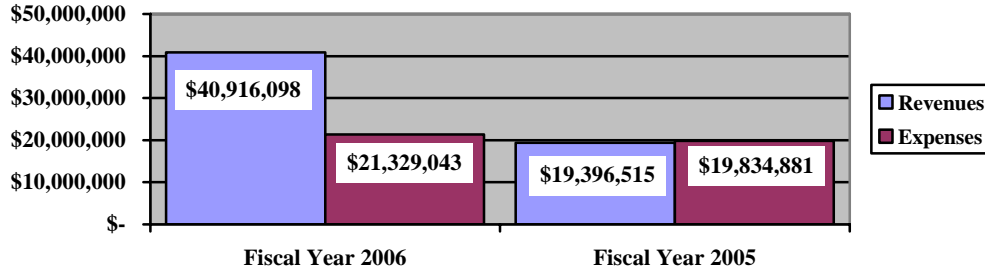
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 82.98% of total governmental revenue. Real estate property is reappraised every six years.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 8,543,713	\$ 6,596,921	\$ 8,544,607	\$ 7,144,996
Special	2,968,642	1,828,823	2,982,893	2,095,827
Vocational	327,859	312,790	378,976	378,976
Support services:				
Pupil	959,732	855,562	872,216	789,374
Instructional staff	1,150,599	495,966	1,127,111	534,952
Board of education	54,616	52,094	61,971	56,468
Administration	1,642,549	1,536,900	1,538,863	1,452,301
Fiscal	368,263	346,526	345,070	345,070
Operations and maintenance	1,328,471	1,264,771	1,198,976	1,132,663
Pupil transportation	1,630,589	1,446,000	1,472,992	1,410,050
Central	127,524	101,930	104,534	96,261
Operations of non-instructional services	3,148	2,214	47,575	47,575
Food service operations	617,085	(121,725)	572,661	(130,782)
Extracurricular activities	604,008	374,105	586,436	397,648
Interest and fiscal charges	1,002,245	1,002,245	-	-
Total expenses	<u>\$ 21,329,043</u>	<u>\$ 16,095,122</u>	<u>\$ 19,834,881</u>	<u>\$ 15,751,379</u>

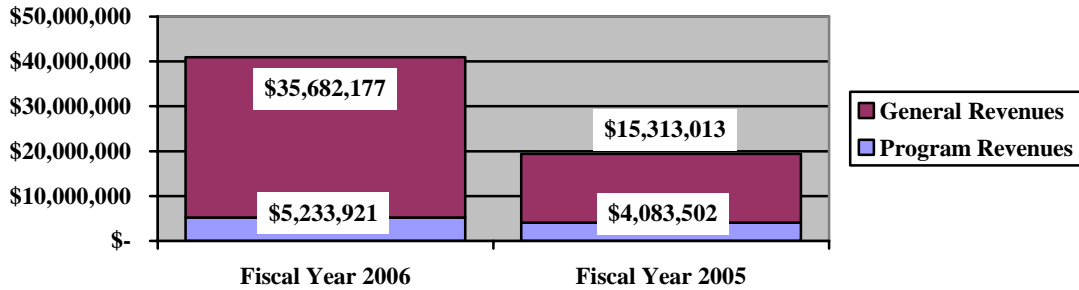
**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 73.80% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.46%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$29,426,578, which is higher than last year's total of \$1,588,330. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase
General	\$ 895,812	\$ 361,954	\$ 533,858
Building	15,369,944	-	15,369,944
Classroom facilities	10,894,044	-	10,894,044
Other Governmental	<u>2,266,778</u>	<u>1,226,376</u>	<u>1,040,402</u>
Total	<u>\$ 29,426,578</u>	<u>\$ 1,588,330</u>	<u>\$ 27,838,248</u>

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

General Fund

The District's general fund balance increased \$533,858. The increase in fund balance can be attributed to revenues increasing faster than expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,044,199	\$ 4,632,643	8.88 %
Transportation fees	65,534	-	100.00 %
Tuition	166,295	-	100.00 %
Earnings on investments	165,403	127,605	29.62 %
Intergovernmental	10,659,841	10,463,173	1.88 %
Other revenues	<u>207,311</u>	<u>122,804</u>	68.81 %
 Total	 <u>\$ 16,308,583</u>	 <u>\$ 15,346,225</u>	 6.27 %
<u>Expenditures</u>			
Instruction	\$ 9,459,992	\$ 9,256,763	2.20 %
Support services	6,055,046	5,615,409	7.83 %
Extracurricular activities	347,575	315,523	10.16 %
Facilities acquisition and construction	<u>8,362</u>	<u>8,539</u>	(2.07) %
 Total	 <u>\$ 15,870,975</u>	 <u>\$ 15,196,234</u>	 4.44 %

Building Fund

The Building fund had \$25,472,369 in revenues and other financing sources and \$10,102,425 in expenditures. During fiscal 2006, the building fund's fund balance increased \$15,369,944 to \$15,369,944.

Classroom Facilities Fund

The Classroom facilities fund had \$26,476,819 in revenues and other financing sources and \$15,582,775 in expenditures. During fiscal 2006, the classroom facilities fund's fund balance increased \$10,894,044 to \$10,894,044.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District did not amend its general fund budget revenues. For the general fund, original budget revenues and other financing sources were \$15,000,000, which is the same as final budget revenues and other financing sources of \$15,000,000. For fiscal 2006, actual revenues and other financing sources were \$16,311,087. This represents a \$1,311,087 increase over final budgeted revenues.

General fund original budget expenditures and other financing uses (original appropriations plus prior year encumbrances appropriated) totaled \$15,421,417. Final budget expenditures and other financing uses (final appropriations plus prior year encumbrances appropriated) totaled \$16,421,417. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$16,447,523, which was \$26,106 more than the final budget expenditures and other financing uses.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$3,950,739 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 986,120	\$ 986,120
Construction in progress	427,384	49,384
Land improvements	526,748	582,273
Building and improvements	901,494	957,155
Furniture and equipment	569,057	637,303
Vehicles	<u>539,936</u>	<u>705,332</u>
Total	<u>\$ 3,950,739</u>	<u>\$ 3,917,567</u>

Total additions to capital assets for 2006 were \$669,370. The overall increase in capital assets of \$33,172 is primarily due to capital outlays being greater than depreciation expense of \$455,727 and disposals of \$180,471 (net of accumulated depreciation) in fiscal 2006.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2006 the District had \$25,000,000 in general obligation bonds outstanding. Of this total, \$330,000 is due within one year and \$24,670,000 is due within greater than one year. The following table summarizes the bonds outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds	<u>\$ 25,000,000</u>	<u>\$ -</u>
Total	<u>\$ 25,000,000</u>	<u>\$ -</u>

At June 30, 2006 the District's had exceeded the voted debt margin by \$3,563,201. The unvoted debt margin was \$234,706 and an unvoted energy conservation debt margin of \$2,112,357.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Current Financial Related Activities

The District has continued to maintain the highest standards of service to our students, parents, and community. The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed from the community's citizens. The District has communicated to its community that they rely upon their support for part of its operations, and will continue to work diligently to plan expenses, staying carefully within the five-year financial plan. State law retards the growth of income generated by local levies rendering revenue relatively constant. The last new levy approved by the taxpayers was November 1990. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance.

A challenge facing the District is the need to update its facilities to enhance learning space design for students. The Board has been working with the Ohio School Facilities Commission (OSFC) and has applied to the Exceptional Needs Program for the current high school facility. The current high school site includes two main structures that house grades 7-12. The main structure for grades 7-8 is 89 years old and the "newer" building for grades 9-12 was built in 1957. On May 27, 2005 the district was approved to participate in the Exceptional Needs Program. The scope of the project will be to build one new high school to house grades 9-12; renovation/additions to the 1958 and 1976 sections of Gallia Academy High School to house grades 6-8; allowance to abate/demolish the 1916 section of the Gallia Academy High School. The state will provide 64% of the funding or \$27,925,959. On November 8, 2005 the public responded by an unprecedented 71% passage of a bond issue that will provide the local funds necessary to support this project. The 7.2 mill bond issue passed will also provide sufficient local money to be combined with state money to renovate Washington Elementary and build new Green and Rio Grande Elementary Buildings.

Contacting the 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 District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Ellen Marple, Treasurer, Gallipolis City School District, 61 State Street, Gallipolis, Ohio 45631.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,459,699
Equity in restricted cash and cash equivalents	1,337,476
Investments	25,808,416
Receivables:	
Taxes	7,113,075
Intergovernmental	17,234,488
Accrued interest	38,370
Prepayments	133,733
Materials and supplies inventory	85,121
Unamortized bond issue costs	299,870
Capital assets:	
Land and construction in progress	1,413,504
Depreciable capital assets, net	2,537,235
Total capital assets, net	3,950,739
 Total Assets	 59,460,987
Liabilities:	
Accounts payable	256,808
Accrued wages and benefits	1,272,846
Pension obligation payable	413,609
Intergovernmental payable	129,891
Deferred revenue	6,284,704
Accrued interest payable	326,559
Long-term liabilities:	
Due within one year	422,260
Due within more than one year	26,497,310
Total Liabilities	35,603,987
Net Assets:	
Invested in capital assets, net of related debt	
Invested in capital assets	3,572,739
Restricted for:	
Capital projects	19,701,984
Debt service	78,649
Classroom facilities and maintenance	58,248
State funded programs	23,426
Federally funded programs	25,018
Student activities	83,923
Other purposes	1,635,650
Unrestricted	(1,322,637)
 Total Net Assets	 \$ 23,857,000

See accompanying notes to the basic financial statements.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 8,543,713	\$ 166,295	\$ 1,365,089	\$ 415,408	\$ (6,596,921)
Special	2,968,642	-	1,000,584	139,235	(1,828,823)
Vocational	327,859	-	-	15,069	(312,790)
Support services:					
Pupil	959,732	-	59,991	44,179	(855,562)
Instructional staff	1,150,599	-	602,065	52,568	(495,966)
Board of education	54,616	-	-	2,522	(52,094)
Administration	1,642,549	-	30,480	75,169	(1,536,900)
Fiscal	368,263	4,565	-	17,172	(346,526)
Operations and maintenance	1,328,471	-	-	63,700	(1,264,771)
Pupil transportation	1,630,589	65,534	45,156	73,899	(1,446,000)
Central	127,524	-	19,407	6,187	(101,930)
Operation of non-instructional services					
Other non-instructional services	3,148	-	-	934	(2,214)
Food service operations	617,085	366,539	372,271	-	121,725
Extracurricular activities	604,008	204,047	-	25,856	(374,105)
Interest and fiscal charges	1,002,245	-	-	-	(1,002,245)
Total governmental activities	\$ 21,329,043	\$ 806,980	\$ 3,495,043	\$ 931,898	(16,095,122)
 General Revenues:					
Property taxes levied for:					
General purposes					5,027,340
Other Purposes					54,312
Debt service					1,055,804
Capital projects					108,624
Grants and entitlements not restricted to specific programs					27,707,100
Investment earnings					1,352,159
Miscellaneous					376,838
					35,682,177
					19,587,055
					4,269,945
					\$ 23,857,000

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 557,983	\$ 257,455	\$ 182,215	\$ 2,462,046	\$ 3,459,699
Investments	-	15,112,489	10,695,927	-	25,808,416
Receivables:					
Taxes	5,471,596	-	-	1,641,479	7,113,075
Intergovernmental	-	-	16,973,270	261,218	17,234,488
Accrued interest	-	22,468	15,902	-	38,370
Interfund loans	172,944	-	-	-	172,944
Prepayments	108,240	-	-	25,493	133,733
Materials and supplies inventory	64,407	-	-	20,714	85,121
Restricted assets:					
Equity in pooled cash and cash equivalents	1,337,476	-	-	-	1,337,476
Total assets	<u>\$ 7,712,646</u>	<u>\$ 15,392,412</u>	<u>\$ 27,867,314</u>	<u>\$ 4,410,950</u>	<u>\$ 55,383,322</u>
Liabilities:					
Accounts payable	\$ 123,421	\$ -	\$ -	\$ 133,387	\$ 256,808
Accrued wages and benefits	1,084,706	-	-	188,140	1,272,846
Compensated absences payable	9,271	-	-	-	9,271
Pension obligation payable	331,613	-	-	81,996	413,609
Intergovernmental payable	110,851	-	-	19,040	129,891
Interfund loans payable	-	-	-	172,944	172,944
Deferred revenue	5,156,972	22,468	16,973,270	1,548,665	23,701,375
Total liabilities	<u>6,816,834</u>	<u>22,468</u>	<u>16,973,270</u>	<u>2,144,172</u>	<u>25,956,744</u>
Fund Balances:					
Reserved for encumbrances	47,845	24,000	15,360	164,567	251,772
Reserved for materials and supplies inventory	64,407	-	-	20,714	85,121
Reserved for prepayments	108,240	-	-	25,493	133,733
Reserved for debt service	-	-	-	350,339	350,339
Reserved for property tax unavailable for appropriation	182,895	-	-	54,869	237,764
Reserved for BWC refunds	74,921	-	-	-	74,921
Reserved for capital maintenance	849,620	-	-	-	849,620
Reserved for instructional materials	412,935	-	-	-	412,935
Unreserved:					
Designation for budget stabilization.	15,718	-	-	-	15,718
Undesignated, (deficit) reported in:					
General fund	(860,769)	-	-	-	(860,769)
Special revenue funds	-	-	-	638,147	638,147
Capital projects funds	-	15,345,944	10,878,684	1,012,649	27,237,277
Total fund balances	<u>895,812</u>	<u>15,369,944</u>	<u>10,894,044</u>	<u>2,266,778</u>	<u>29,426,578</u>
Total liabilities and fund balances	<u>\$ 7,712,646</u>	<u>\$ 15,392,412</u>	<u>\$ 27,867,314</u>	<u>\$ 4,410,950</u>	<u>\$ 55,383,322</u>

See Accompanying Notes to the Basic Financial Statements.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

Total governmental fund balances \$ 29,426,578

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 3,950,739

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.

Taxes	\$ 441,827	
Intergovernmental revenue	16,974,844	

Total 17,416,671

Unamortized bond issuance costs are not recognized in the funds. 299,870

Unamortized premiums on bond issuances are not recognized
in the funds. (345,686)

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

Compensated absences	1,564,613	
General obligation bonds payable	25,000,000	
Accrued interest payable	326,559	

Total (26,891,172)

Net assets of governmental activities \$ 23,857,000

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 5,044,199	\$ -	\$ -	\$ 1,116,780	\$ 6,160,979
Tuition	166,295	-	-	-	166,295
Transportation fees	65,534	-	-	-	65,534
Earnings on investments	165,403	472,369	274,767	439,620	1,352,159
Charges for services	-	-	-	366,539	366,539
Extracurricular	-	-	-	204,047	204,047
Classroom materials and fees	-	-	-	35,051	35,051
Other local revenues	207,311	-	-	134,476	341,787
Intergovernmental - state	10,644,088	-	899,344	1,488,220	13,031,652
Intergovernmental - federal	15,753	-	-	2,116,357	2,132,110
Total revenue	<u>16,308,583</u>	<u>472,369</u>	<u>1,174,111</u>	<u>5,901,090</u>	<u>23,856,153</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,124,205	-	-	1,361,287	8,485,492
Special	2,011,690	-	-	1,003,614	3,015,304
Vocational	324,097	-	-	2,249	326,346
Support services:					
Pupil	890,874	-	-	65,890	956,764
Instructional staff	432,645	-	-	701,567	1,134,212
Board of education	54,616	-	-	-	54,616
Administration	1,590,191	-	-	37,690	1,627,881
Fiscal	343,424	-	-	24,866	368,290
Operations and maintenance	1,311,527	-	-	30,505	1,342,032
Pupil transportation	1,329,277	-	-	146,183	1,475,460
Central	102,492	-	4,492	22,900	129,884
Operation of non-instructional services:					
Other non-instructional services	-	-	-	3,148	3,148
Food service operations	-	-	-	608,445	608,445
Extracurricular activities	347,575	-	-	209,450	557,025
Facilities acquisition and construction	8,362	49,079	328,921	12,514	398,876
Debt service:					
Principal retirement	-	10,053,346	14,946,654	-	25,000,000
Interest and fiscal charges	-	-	-	676,119	676,119
Bond issuance costs	-	-	302,708	-	302,708
Total expenditures	<u>15,870,975</u>	<u>10,102,425</u>	<u>15,582,775</u>	<u>4,906,427</u>	<u>46,462,602</u>
Excess of revenues over (under) expenditures	<u>437,608</u>	<u>(9,630,056)</u>	<u>(14,408,664)</u>	<u>994,663</u>	<u>(22,606,449)</u>
Other financing sources (uses):					
Premium on bonds sold	-	-	302,708	46,249	348,957
Sale of capital assets	104,101	-	-	-	104,101
Sale of bonds	-	-	25,000,000	-	25,000,000
Sale of notes	-	25,000,000	-	-	25,000,000
Total other financing sources (uses)	<u>104,101</u>	<u>25,000,000</u>	<u>25,302,708</u>	<u>46,249</u>	<u>50,453,058</u>
Net change in fund balances	541,709	15,369,944	10,894,044	1,040,912	27,846,609
Fund balance at beginning of year	361,954	-	-	1,226,376	1,588,330
Decrease in reserve for inventory	(7,851)	-	-	(510)	(8,361)
Fund balances at end of year	<u>\$ 895,812</u>	<u>\$ 15,369,944</u>	<u>\$ 10,894,044</u>	<u>\$ 2,266,778</u>	<u>\$ 29,426,578</u>

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, 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, 2006

Net change in fund balances - total governmental funds \$ 27,846,609

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$669,370) exceeds depreciation expense (\$455,727) in the current period. 213,643

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (180,471)

Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed. (8,361)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 17,059,945

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. 299,870

Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. (345,686)

Proceeds of bonds and notes are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (50,000,000)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 25,000,000

Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. (326,559)

Some expenses reported on the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 28,065

Change in net assets of governmental activities \$ 19,587,055

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,419,582	\$ 4,419,582	\$ 4,805,879	\$ 386,297
Tuition	152,928	152,928	166,295	13,367
Transportation fees	60,266	60,266	65,534	5,268
Earnings on investments	152,108	152,108	165,403	13,295
Other local revenues	100,759	100,759	109,566	8,807
Intergovernmental - state	9,789,046	9,789,046	10,644,665	855,619
Intergovernmental - federal	14,487	14,487	15,753	1,266
Total revenue	<u>14,689,176</u>	<u>14,689,176</u>	<u>15,973,095</u>	<u>1,283,919</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,943,979	7,394,258	7,328,139	66,119
Special	1,977,514	2,105,746	2,086,917	18,829
Vocational	318,341	338,984	335,953	3,031
Support services:				
Pupil	854,436	909,842	901,706	8,136
Instructional staff	413,720	440,548	436,609	3,939
Board of education	57,623	61,360	60,811	549
Administration	1,510,091	1,608,013	1,593,634	14,379
Fiscal	324,107	345,124	342,038	3,086
Operations and maintenance	1,277,041	1,359,851	1,347,691	12,160
Pupil transportation	1,271,725	1,354,190	1,342,081	12,109
Central	128,908	137,267	136,040	1,227
Extracurricular activities	336,533	358,355	355,151	3,204
Facilities acquisition and construction	7,399	7,879	7,809	70
Total expenditures	<u>15,421,417</u>	<u>16,421,417</u>	<u>16,274,579</u>	<u>146,838</u>
Excess of revenues under expenditures	<u>(732,241)</u>	<u>(1,732,241)</u>	<u>(301,484)</u>	<u>1,430,757</u>
Other financing sources (uses):				
Refund of prior year expenditure	89,907	89,907	97,765	7,858
Advances in	125,184	125,184	136,126	10,942
Advances (out)	-	-	(172,944)	(172,944)
Sale of capital assets	95,733	95,733	104,101	8,368
Total other financing sources (uses)	<u>310,824</u>	<u>310,824</u>	<u>165,048</u>	<u>(145,776)</u>
Net change in fund balance	(421,417)	(1,421,417)	(136,436)	1,284,981
Fund balance at beginning of year	1,449,779	1,449,779	1,449,779	-
Prior year encumbrances appropriated	421,417	421,417	421,417	-
Fund balance at end of year	<u>\$ 1,449,779</u>	<u>\$ 449,779</u>	<u>\$ 1,734,760</u>	<u>\$ 1,284,981</u>

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 58,712
Total assets	<u>\$ 58,712</u>
Liabilities:	
Accounts payable	\$ 17,746
Due to students	40,966
Total liabilities	<u>\$ 58,712</u>

See Accompanying Notes to the Basic Financial Statements

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Gallipolis City School District (the "District") is located on the Ohio River in east-central Gallia County. The District includes all of the City of Gallipolis and portions of surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five-members elected at large for staggered four-year terms.

The District ranks as the 222nd largest by enrollment among the 615 public districts in the state. It currently operates 3 elementary schools and 1 comprehensive high school. The District employs 80 non-certified and 166 certified (including 24 administrative) full-time and part-time employees to provide services to approximately 2,383 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Gallia-Jackson-Vinton Joint Vocational School District - The Vocational School District (the "JVS") is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The school accepts non-tuition students from the District as a member school of the JVS; however, it is considered a separate political subdivision and is not considered to be part of the District.

South Eastern Ohio Special Education Regional Resource Center (SERRC) - 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, representatives 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 District's superintendent is on the SERRC board. 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.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. 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. Refer to Note 10 for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

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

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

Building Fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the district. All proceeds from the sale of bonds, notes or certificates of indebtedness, except premium and accrued interest must be paid into the fund.

Classroom Facilities Fund - The classroom facilities fund is used for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, 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 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

On 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. On the modified accrual basis of accounting, the fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Gallia County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2006. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$165,403, which includes \$16,721 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 4.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and the consumption method on the government-wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintained a capitalization threshold of \$1,500 during fiscal 2006. 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. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service or employees with 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, debt service, Bureau of Workers' Compensation (BWC) refunds, instructional materials and capital acquisition. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. Designated fund balance represents planned actions for monies set-aside by the District for budget stabilization.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants received which are restricted as to their use by grantors and the amounts for set-a-sides (see note 15.)

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's restricted net assets of \$21,606,898, none are restricted by enabling legislation.

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds and to create a reserve for textbooks/instructional materials and capital acquisitions. See Note 15 for details.

Q. Interfund Activity

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

R. Extraordinary and Special Items

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47 did not have an effect on the fund balances and net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Uniform School Supplies	\$ 30,152
Entry Year Programs	59
Poverty Aid	24,406

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$4,855,887. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$237,500 of the District's bank balance of \$5,623,128 was covered by the Federal Deposit Insurance Corporation, while \$5,385,628 was exposed to custodial risk as discussed below. The District's deposits are not subject to custodial credit risk.

B. Investments

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

Investment type	Balance at Fair Value	Investment Maturities		
		6 months or less	7 to 12 months	13 to 18 months
U.S. Treasury Note	\$ 630,726	\$ 630,726	\$ -	\$ -
FHLB	4,584,630	-	-	4,584,630
FHLMC	15,075,780	3,147,840	11,927,940	-
FNMA	5,517,280	3,972,000	1,545,280	-
	<u>\$ 25,808,416</u>	<u>\$ 7,750,566</u>	<u>\$ 13,473,220</u>	<u>\$ 4,584,630</u>

The weighted average maturity of investments is .65 years

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investments, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Treasury Note	\$ 630,726	2.44
FHLB	4,584,630	17.76
FHLMC	15,075,780	58.41
FNMA	<u>5,517,280</u>	<u>21.39</u>
	<u>\$25,808,416</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,855,887
Investments	<u>25,808,416</u>
Total	<u>\$ 30,664,303</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 30,605,591
Agency funds	<u>58,712</u>
Total	<u>\$ 30,664,303</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 172,944

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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 District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Gallia County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$182,895 in the general fund and \$54,869 in the bond retirement debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$68,279 in the general 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 180,093,440	82.00	\$ 202,995,520	86.50
Public Utility Personal	11,927,520	5.40	11,865,520	5.05
Tangible Personal Property	<u>27,662,124</u>	<u>12.60</u>	<u>19,845,300</u>	<u>8.45</u>
Total	<u>\$ 219,683,084</u>	<u>100.00</u>	<u>\$ 234,706,340</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 31.00		\$ 31.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 7,113,075
Intergovernmental	17,234,488
Accrued interest	<u>38,370</u>
Total	<u>\$24,385,933</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 986,120	\$ -	\$ -	\$ 986,120
Construction in progress	<u>49,384</u>	<u>378,000</u>	<u>-</u>	<u>427,384</u>
Total capital assets, not being depreciated	<u>1,035,504</u>	<u>378,000</u>	<u>-</u>	<u>1,413,504</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,431,365	-	(1,945)	1,429,420
Buildings and improvements	4,792,633	-	-	4,792,633
Furniture and equipment	1,789,628	105,552	(13,785)	1,881,395
Vehicles	<u>2,317,825</u>	<u>185,818</u>	<u>(462,977)</u>	<u>2,040,666</u>
Total capital assets, being depreciated	<u>10,331,451</u>	<u>291,370</u>	<u>(478,707)</u>	<u>10,144,114</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(849,092)	(53,677)	97	(902,672)
Buildings and improvements	(3,835,478)	(55,661)	-	(3,891,139)
Furniture and equipment	(1,152,325)	(169,468)	9,455	(1,312,338)
Vehicles	<u>(1,612,493)</u>	<u>(176,921)</u>	<u>288,684</u>	<u>(1,500,730)</u>
Total accumulated depreciation	<u>(7,449,388)</u>	<u>(455,727)</u>	<u>298,236</u>	<u>(7,606,879)</u>
Governmental activities capital assets, net	<u>\$ 3,917,567</u>	<u>\$ 213,643</u>	<u>\$ (180,471)</u>	<u>\$ 3,950,739</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 127,937
Special	19,504

Support Services:

Pupil	6,376
Instructional staff	21,744
Administration	14,920
Fiscal	315
Operations and maintenance	30,995
Pupil transportation	177,001
Central	300
Extracurricular activities	46,984
Food service operations	<u>9,651</u>
Total depreciation expense	<u>\$ 455,727</u>

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
G.O. Bonds payable	\$ -	\$25,000,000	\$ -	\$25,000,000	\$ 330,000
Notes payable	-	25,000,000	(25,000,000)	-	-
Compensated absences	<u>1,595,340</u>	<u>101,494</u>	<u>(122,950)</u>	<u>1,573,884</u>	<u>92,260</u>
Total long-term obligations, governmental activities	<u>\$ 1,595,340</u>	<u>\$50,101,494</u>	<u>\$ (25,122,950)</u>	<u>\$26,573,884</u>	<u>\$ 422,260</u>
Unamortized premium				<u>345,686</u>	
Total on Statement of Net Assets				<u>\$26,919,570</u>	

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

- B. During fiscal 2006, the District issued general obligation bonds to provide long-term financing of the construction and renovation of various school buildings in accordance with the terms of a Facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter "Construction Project") encompasses the construction of four new kindergarten through eight grade buildings and a new high school. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 7.20 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2006, the total estimated cost of the Construction Project is \$27,925,959, of which OSFC will pay approximately \$17,872,614.

This issue is comprised of current interest bonds, par value \$25,000,000. The interest rates on the current interest bonds range from 4.00% to 5.00%.

Interest payments on the current interest bonds are due on December 1 of each year. The final maturity stated in the issue is December 1, 2033.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

The following is a summary of the future debt service requirements to maturity for the 2006 series general obligation bonds:

Year Ended	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 330,000	\$ 725,687	\$ 1,055,687
2007	470,000	1,117,740	1,587,740
2008	470,000	1,098,940	1,568,940
2009	540,000	1,080,140	1,620,140
2010	565,000	1,058,540	1,623,540
2011 - 2015	3,175,000	4,935,700	8,110,700
2016 - 2020	3,925,000	4,186,430	8,111,430
2021 - 2025	4,910,000	3,199,037	8,109,037
2026 - 2030	6,160,000	1,950,275	8,110,275
2031 - 2032	4,455,000	406,800	4,861,800
Total	<u>\$ 25,000,000</u>	<u>\$ 19,759,289</u>	<u>\$ 44,759,289</u>

C. On Decemebr 21, 2005, the District issued \$15,000,000 in bond anticipation notes and on January 24, 2006, the District issued \$10,000,000 in bond anticipation notes to begin District building projects. The notes bore an annual interest rate of 4.25% and matured on June 29, 2006. The notes were retired using the proceeds from the District’s \$25,000,000 bond issue on April10, 2006. In accordance with FASB Statement No. 6 “Classification of Short-Term Obligations Expected to Be Refinanced”, the bond anticipation notes were classified as long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtness shall not exceed 1/10 of 1% of the property valuation of the District.

In accordance with the above calculation the District has exceeded the voted debt margin by \$3,563,201 as of June 30, 2006. The unvoted debt margin was \$234,706 as of June 30, 2006, and an unvoted energy conservation debt margin of \$2,112,357.

NOTE 10 - RISK MANAGEMENT

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

During fiscal year 2006, the District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 10 - RISK MANAGEMENT – (Continued)

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded this commercial coverage in any of the past three years. Liability insurance coverage was reduced from \$2 million per occurrence/\$5 million annual aggregation in 2002.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

OSBA WORKERS' COMPENSATION GROUP RATING PROGRAM

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the 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 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 ensures 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.

NOTE 11 - PENSION PLAN

A. School Employees Retirement System

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 11 - PENSION PLAN - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$222,195, \$210,132, and \$160,448; 49.82 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$111,507 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS 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 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 11 - PENSION PLAN - (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,284,584, \$1,004,620 and \$1,017,381; 82.99 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$218,534 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$21,866 made by the District and \$25,915 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security, SERS, or STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS), and to retired non-certified 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 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 cost 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, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$98,814 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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.

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$102,538 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. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs of \$158,751,207 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (136,436)
Net adjustment for revenue accruals	335,488
Net adjustment for expenditure accruals	242,905
Net adjustment for other sources/uses	(60,947)
Adjustment for encumbrances	<u>160,699</u>
GAAP basis	<u>\$ 541,709</u>

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

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

NOTE 15 - STATUTORY RESERVES – (Continued)

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>	<u>Budget Stabilization Designation</u>
Set-aside cash balance as of June 30, 2005	\$ 360,023	\$ 540,975	\$ 74,921	\$ 15,718
Current year set-aside requirement	344,722	344,722	-	-
Qualifying disbursements	<u>(291,810)</u>	<u>(36,077)</u>	-	-
Total	<u>\$ 412,935</u>	<u>\$ 849,620</u>	<u>\$ 74,921</u>	<u>\$ 15,718</u>
Balance carried forward to FY 2007	<u>\$ 412,935</u>	<u>\$ 849,620</u>	<u>\$ 74,921</u>	<u>\$ 15,718</u>

The District in a prior year elected to maintain the budget stabilization reserve. This reserve is no longer required under state statute. Therefore, this amount is presented on the balance sheet as a designation of fund balance, rather than a reserve, and is therefore not included in restricted assets.

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for instructional materials	\$ 412,935
Amount restricted for capital acquisition	849,620
Amount restricted for BWC refunds	<u>74,921</u>
Total restricted assets	<u>\$ 1,337,476</u>
Amount designated for budget stabilization	<u>\$ 15,718</u>

Gallipolis City School District
Gallia County
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05PU	10.553	\$ 73,973	\$ -	\$ 73,973	\$ -
National School Lunch Program	LLP4	10.555	280,980	-	280,980	-
Total - Nutrition Cluster			354,953	-	354,953	-
Food Distribution Program	NA	10.550	-	32,563	-	32,563
Total United States Department of Agriculture			354,953	32,563	354,953	32,563
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Education Agencies	C1S1	84.010	747,230	-	728,868	-
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BSF	84.027	596,330	-	686,557	-
Special Education - Preschool Grant	PGS1	84.173	21,371	-	18,576	-
Total Special Education Cluster			617,701	-	705,133	-
<i>Passed through Gallia-Jackson-Vinton Board of Alcohol, Drug Addiction, and Mental Health Services</i>						
State and Drug-Free Schools and Communities - State Grants	NA	84.186	38,661	-	39,742	-
<i>Passed through Ohio Department of Education</i>						
State and Drug-Free Schools and Communities - State Grants	DRS1	84.186	19,788	-	19,704	-
Total Safe and Drug-Free Schools and Communities			58,449	-	59,446	-
Twenty-First Century Community Learning Centers	T1S1	84.287	300,971	-	316,625	-
State Grants for Innovative Programs	C2S1	84.298	8,748	-	8,964	-
Education Technology State Grants	TJS1	84.318	17,189	-	17,829	-
Improving Teacher Quality State Grants	TRS1	84.367	141,561	-	172,686	-
Total United States Department of Education			468,469	-	516,104	-
United States Department of Health and Human Services						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	NA	93.767	1,051	-	1,095	-
Medical Assistance Program	NA	93.778	14,702	-	15,314	-
Total United States Department of Health and Human Services			15,753	-	16,409	-
Total Federal Financial Assistance			\$ 2,262,555	\$ 32,563	\$ 2,380,913	\$ 32,563

NA - Not Available

See accompanying notes to the schedule of federal awards receipts and expenditures

Gallipolis City school District
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures includes the federal grant activity of the Gallipolis City School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTIONS

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 28, 2007 wherein we indicated the District implemented GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

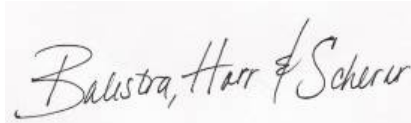
Members of the Board

Gallipolis City School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

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Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

Members of the Board
Gallipolis City School District
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR
A-133

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 28, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 SECTION .505

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs= Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster, CFDA# 10.553 & 10.555 Title I Grants to Local Education Agencies, CFDA# 84.010 Twenty-First Century Community Learning Centers, CFDA# 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
JUNE 30, 2006

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	34 CFR 80.20(c) The District had cash balances that exceeded immediate need.	Yes	



Mary Taylor, CPA
Auditor of State

GALLIPOLIS CITY SCHOOL DISTRICT

GALLIA 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 10, 2007**