

Gallipolis City School District

Gallia County, Ohio

Single Audit

July 1, 2009 through June 30, 2010

Fiscal Year Audited Under GAGAS: 2010



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Dave Yost • 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, 2009 through June 30, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 18, 2011

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Gallipolis City School District
For the Fiscal Year Ended June 30, 2010

Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet–Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances of Governmental Funds To the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	21
Notes to the Basic Financial Statements.....	22
Schedule of Receipts and Expenditures of Federal Awards.....	46
Notes to Schedule of Receipts and Expenditures of Federal Awards	47
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	48
Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	50
Schedule of Findings OMB Circular A-133 §.505.....	52



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, Gallia County, Ohio, (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

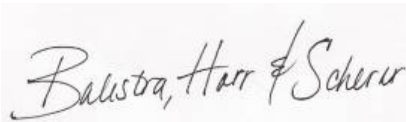
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District, Gallia County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the financial statements, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

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.

March 1, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

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, 2010. 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 2010 are as follows:

- The District's net assets of governmental activities increased \$6,789,007 which represents a 15.20% increase from 2009.
- General revenues accounted for \$25,363,531 in revenue or 80.92% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,982,199 or 19.08% of total revenues of \$31,345,730.
- The District had \$24,556,723 in expenses related to governmental activities; only \$5,982,199 was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$25,363,531 were adequate to provide for these programs.
- The District had two major governmental funds during fiscal 2010. The general fund had \$18,689,779 in revenues and other financing sources and \$18,756,882 in expenditures and other financing uses. During fiscal 2010, the general fund's deficit fund balance increased \$56,514 from a deficit of \$163,588 to a deficit of \$220,102.
- The classroom facilities fund had \$5,929,461 in revenues and \$22,644,449 in expenditures. During fiscal 2010, the classroom facilities fund's fund balance decreased \$16,714,988 from \$28,474,215 to \$11,759,227.

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 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, 2010
(Unaudited)

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 2010?" 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 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 separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. 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, 2010
(Unaudited)

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 22-45 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 2010 and 2009.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 32,630,661	\$ 47,735,432
Capital assets, net	<u>56,953,645</u>	<u>32,497,070</u>
Total assets	<u>89,584,306</u>	<u>80,232,502</u>
<u>Liabilities</u>		
Current liabilities	13,071,190	9,877,897
Long-term liabilities	<u>25,061,732</u>	<u>25,692,228</u>
Total liabilities	<u>38,132,922</u>	<u>35,570,125</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	33,468,293	21,870,887
Restricted	19,336,490	24,447,804
Unrestricted (deficit)	<u>(1,353,399)</u>	<u>(1,656,314)</u>
Total net assets	<u>\$ 51,451,384</u>	<u>\$ 44,662,377</u>

The increase in net capital assets is related to the OSFC construction project and the corresponding increase in the balance of buildings and improvements, which is also the reason for the increase in net assets invested in capital assets, net of related debt.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$51,451,384. At year-end, restricted net assets were \$19,336,490.

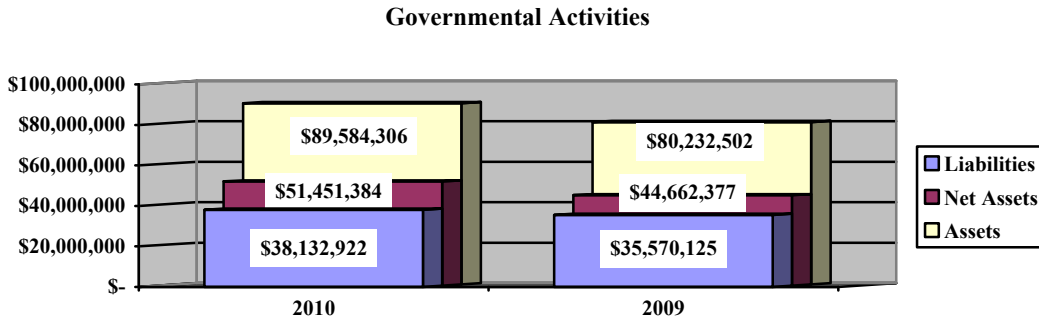
At year-end, capital assets represented 63.58% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Total net assets invested in capital assets, net of related debt at June 30, 2010 were \$33,468,293. 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, \$19,336,490, 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 \$1,353,399.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The graph below illustrates the District's total assets, liabilities and net assets at June 30, 2010 and 2009.



The table below shows the change in net assets for fiscal years 2010 and 2009.

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,935,191	\$ 1,837,033
Operating grants and contributions	3,745,311	4,200,865
Capital grants and contributions	301,697	31,699
General revenues:		
Property taxes	6,160,818	6,184,521
Grants and entitlements not restricted to specific programs	12,821,336	11,094,772
Grants and entitlements restricted for Ohio Schools Facilities Commission	5,716,378	-
Investment earnings	509,647	832,283
Other	155,352	163,951
Total revenues	<u>\$ 31,345,730</u>	<u>\$ 24,345,124</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

Change in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,214,126	\$ 9,306,152
Special	3,502,187	3,274,084
Vocational	94,359	100,663
Other	835,688	1,208,833
Support services:		
Pupil	1,132,120	1,137,376
Instructional staff	1,346,735	1,381,424
Board of education	25,685	24,715
Administration	1,951,214	1,848,855
Fiscal	440,996	457,400
Operations and maintenance	1,797,132	1,561,917
Pupil transportation	1,529,190	1,729,127
Central	113,530	78,964
Operations of non-instructional services:		
Other non-instructional services	119	1,910
Food service operations	916,128	873,248
Extracurricular activities	591,562	594,154
Interest and fiscal charges	<u>1,065,952</u>	<u>1,087,151</u>
Total expenses	<u>24,556,723</u>	<u>24,665,973</u>
Change in net assets	6,789,007	(320,849)
Net assets at beginning of year	<u>44,662,377</u>	<u>44,983,226</u>
Net assets at end of year	<u>\$ 51,451,384</u>	<u>\$ 44,662,377</u>

Governmental Activities

The increase in grants and entitlements not restricted to specific programs is the result of the grant monies for the OSFC construction project being recognized in fiscal year 2010.

Net assets of the District's governmental activities increased \$6,789,007. Total governmental expenses of \$24,556,723 were offset by program revenues of \$5,982,199 and general revenues of \$25,363,531. Program revenues supported 24.36% of the total governmental expenses.

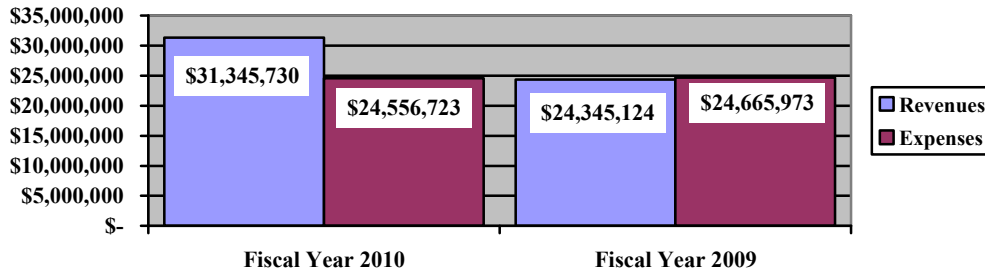
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 78.79% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

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>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 9,214,126	\$ 7,508,625	\$ 9,306,152	\$ 6,701,964
Special	3,502,187	2,465,387	3,274,084	2,416,991
Vocational	94,359	64,997	100,663	100,663
Other	835,688	835,688	1,208,833	853,303
Support services:				
Pupil	1,132,120	1,088,040	1,137,376	1,036,926
Instructional staff	1,346,735	481,168	1,381,424	549,791
Board of education	25,685	25,685	24,715	24,715
Administration	1,951,214	1,357,110	1,848,855	1,805,270
Fiscal	440,996	438,090	457,400	376,041
Operations and maintenance	1,797,132	1,455,056	1,561,917	1,550,377
Pupil transportation	1,529,190	1,311,554	1,729,127	1,574,334
Central	113,530	89,126	78,964	69,849
Operations of non-instructional services:				
Other non-instructional services	119	119	1,910	1,910
Food service operations	916,128	(1,970)	873,248	46,505
Extracurricular activities	591,562	389,897	594,154	400,586
Interest and fiscal charges	<u>1,065,952</u>	<u>1,065,952</u>	<u>1,087,151</u>	<u>1,087,151</u>
Total expenses	<u>\$ 24,556,723</u>	<u>\$ 18,574,524</u>	<u>\$ 24,665,973</u>	<u>\$ 18,596,376</u>

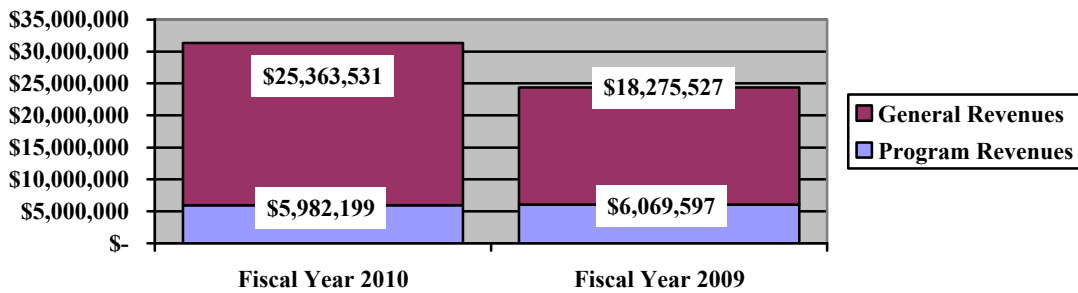
**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The dependence upon tax and other general revenues for governmental activities is apparent, 79.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.64%. 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 2010 and 2009.

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 \$14,023,400, which is lower than last year's total of \$32,164,292. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (deficit) <u>June 30, 2010</u>	Fund Balance (deficit) <u>June 30, 2009</u>	<u>(Decrease)</u>
General	\$ (220,102)	\$ (163,588)	\$ (56,514)
Classroom facilities	11,759,227	28,474,215	(16,714,988)
Other Governmental	<u>2,484,275</u>	<u>3,853,665</u>	<u>(1,369,390)</u>
Total	<u>\$ 14,023,400</u>	<u>\$ 32,164,292</u>	<u>\$ (18,140,892)</u>

General Fund

The District's general fund deficit balance increased \$56,514. The decrease in fund balance can be attributed to increasing revenues and expenditures. The general fund also transferred \$150,000 to other governmental funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Unaudited)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,437,402	\$ 4,348,376	2.05 %
Transportation fees	90,688	96,929	(6.44) %
Tuition	1,240,882	1,183,166	4.88 %
Earnings on investments	136,864	136,932	(0.05) %
Intergovernmental	12,580,573	11,954,474	5.24 %
Other revenues	<u>86,075</u>	<u>77,432</u>	11.16 %
Total	<u>\$ 18,572,484</u>	<u>\$ 17,797,309</u>	4.36 %
<u>Expenditures</u>			
Instruction	\$ 11,902,914	\$ 10,657,908	11.68 %
Support services	6,347,894	6,363,329	(0.24) %
Operation of non-instructional services	-	1,782	100.00 %
Extracurricular activities	355,567	305,266	16.48 %
Facilities acquisition and construction	<u>507</u>	<u>213,166</u>	(99.76) %
Total	<u>\$ 18,606,882</u>	<u>\$ 17,541,451</u>	6.07 %

Classroom Facilities Fund

The Classroom facilities fund had \$5,929,461 in revenues and \$22,644,449 in expenditures. During fiscal 2010, the classroom facilities fund's fund balance decreased \$16,714,988 from \$28,474,215 to \$11,759,227.

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 2010, the District amended its general fund budget revenues. For the general fund, original budget revenues and other financing sources were \$17,500,000, which was lower than the final budget revenues and other financing sources of \$18,650,000. For fiscal 2010, actual revenues and other financing sources were \$18,756,133. This represents a \$106,133 increase over final budgeted revenues.

General fund original budget expenditures and other financing uses (original appropriations plus prior year encumbrances appropriated) totaled \$18,095,184. Final budget expenditures and other financing uses (final appropriations plus prior year encumbrances appropriated) totaled \$18,995,184. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$19,037,257, which was \$42,073 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, 2010
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the District had \$56,953,645 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 986,120	\$ 986,120
Construction in progress	26,495,989	29,530,832
Land improvements	353,535	397,524
Building and improvements	28,169,720	741,562
Furniture and equipment	441,410	323,529
Vehicles	506,871	517,503
Total	\$ 56,953,645	\$ 32,497,070

The overall increase in capital assets of \$24,456,575 is primarily due to capital outlays of \$24,836,453 exceeding depreciation expense of \$331,860 and current year deletions of \$48,018 (net of accumulated depreciation) in fiscal 2010.

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

Debt Administration

At June 30, 2010 the District had \$23,190,000 in general obligation bonds outstanding. Of this total, \$565,000 is due within one year and \$22,625,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2010	Governmental Activities 2009
General obligation bonds	\$ 23,190,000	\$ 23,730,000
Total	\$ 23,190,000	\$ 23,730,000

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, 2010
(Unaudited)

Current Financial Related Activities

The District has continued to maintain the highest standards of service to its 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 operating 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 that has faced the District is the need to update its facilities to enhance learning space design for students. The Board is working with the Ohio School Facilities Commission (OSFC) and on May 27, 2005 the District was approved to participate in the Exceptional Needs Program. The scope of the project is to build one new high school to house grades 9-12; renovation to the 1976 sections of the current Gallia Academy High School to house grades 6-8; and allowances to abate/demolish the 1916 sections of Gallia Academy High School. The State will provide 64% of the funding.

On July 26, 2008 the District was approved for funding through the OSFC Classroom Facilities Assistance Program to move forward with renovating Washington Elementary and build new buildings for Green and Rio Grande Elementary Schools. The State will provide 66% of the funding or \$17,360,488. To provide the local funds necessary to support these projects a 7.2 mill bond issue was passed by the local taxpayers on November 8, 2005 by an unprecedented 71% passage rate. Also passed was a 1.5 mill permanent improvement levy.

The new Gallia Academy High School opened in August 2009. The new Green and Rio Grande Elementary Schools and the renovated Washington Elementary opened in August 2010. The renovation of the old Gallia Academy High School into a Middle School to house grades 6-8 is scheduled for completion in July 2011.

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, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 18,680,995
Receivables:	
Taxes	7,867,315
Accounts	57,698
Intergovernmental	4,923,223
Accrued interest	15,403
Loans	6,755
Prepayments	62,548
Materials and supplies inventory	79,386
Unamortized bond issue costs	256,208
Restricted cash and cash equivalents	681,130
Capital assets:	
Land and construction in progress	27,482,109
Depreciable capital assets, net	29,471,536
Total capital assets, net.	56,953,645
 Total assets.	 89,584,306
 Liabilities:	
Accounts payable.	221,151
Contracts payable.	3,033,498
Retainage payable	681,130
Accrued wages and benefits	1,431,023
Pension obligation payable.	478,337
Intergovernmental payable	92,370
Unearned revenue	7,050,199
Accrued interest payable	83,482
Long-term liabilities:	
Due within one year.	642,216
Due within more than one year	24,419,516
Total liabilities.	24,419,516
 Total liabilities	 38,132,922
 Net Assets:	
Invested in capital assets, net	
of related debt	33,468,293
Restricted for:	
Capital projects	17,366,231
Debt service.	867,574
Classroom facilities and maintenance.	517,275
State funded programs	50,698
Federally funded programs	27,308
Public school support	22,007
Student activities	6,443
Other purposes	478,954
Unrestricted	(1,353,399)
 Total net assets	 \$ 51,451,384

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, 2010

	Program Revenues			Capital	Net (Expense)
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Grants and Contributions	Governmental Activities	Revenue and Changes in Net Assets
Governmental activities:					
Instruction:					
Regular	\$ 9,214,126	\$ 1,240,882	\$ 464,619	\$ -	\$ (7,508,625)
Special	3,502,187	-	1,036,800	-	(2,465,387)
Vocational	94,359	-	29,362	-	(64,997)
Other	835,688	-	-	-	(835,688)
Support services:					
Pupil	1,132,120	-	44,080	-	(1,088,040)
Instructional staff	1,346,735	53,641	811,926	-	(481,168)
Board of education	25,685	-	-	-	(25,685)
Administration	1,951,214	-	594,104	-	(1,357,110)
Fiscal	440,996	-	2,906	-	(438,090)
Operations and maintenance	1,797,132	-	40,379	301,697	(1,455,056)
Pupil transportation	1,529,190	90,688	126,948	-	(1,311,554)
Central	113,530	-	24,404	-	(89,126)
Operation of non-instructional services:					
Other non-instructional services	119	-	-	-	(119)
Food service operations	916,128	352,748	565,350	-	1,970
Extracurricular activities	591,562	197,232	4,433	-	(389,897)
Interest and fiscal charges	1,065,952	-	-	-	(1,065,952)
Total governmental activities	\$ 24,556,723	\$ 1,935,191	\$ 3,745,311	\$ 301,697	(18,574,524)
General Revenues:					
Property taxes levied for:					
General purposes					4,385,668
Special revenue					71,098
Debt service					1,502,811
Capital projects					201,241
Grants and entitlements not restricted to specific programs					12,821,336
Grants and entitlements restricted for Ohio School Facilities Commission					5,716,378
Investment earnings					509,647
Miscellaneous					155,352
Total general revenues					25,363,531
Change in net assets					6,789,007
Net assets at beginning of year					44,662,377
Net assets at end of year					\$ 51,451,384

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,072,891	\$ 14,568,514	\$ 2,897,723	\$ 18,539,128
Receivables:				
Taxes	5,655,902	-	2,211,413	7,867,315
Accounts	57,698	-	-	57,698
Intergovernmental	-	4,767,956	155,267	4,923,223
Accrued interest	-	15,403	-	15,403
Interfund loans	39,285	-	-	39,285
Loans	6,205	-	550	6,755
Prepayments	30,392	-	32,156	62,548
Materials and supplies inventory	67,327	-	12,059	79,386
Restricted assets:				
Equity in pooled cash and cash equivalents	141,867	681,130	-	822,997
Total assets	<u>\$ 7,071,567</u>	<u>\$ 20,033,003</u>	<u>\$ 5,309,168</u>	<u>\$ 32,413,738</u>
Liabilities:				
Accounts payable	\$ 144,346	\$ -	\$ 76,805	\$ 221,151
Contracts payable	-	2,821,426	212,072	3,033,498
Retainage payable	-	681,130	-	681,130
Accrued wages and benefits	1,215,200	-	215,823	1,431,023
Pension obligation payable	380,603	-	97,734	478,337
Intergovernmental payable	86,992	-	5,378	92,370
Interfund loans payable	-	-	39,285	39,285
Deferred revenue	401,478	4,771,220	190,647	5,363,345
Unearned revenue	5,063,050	-	1,987,149	7,050,199
Total liabilities	<u>7,291,669</u>	<u>8,273,776</u>	<u>2,824,893</u>	<u>18,390,338</u>
Fund Balances:				
Reserved for encumbrances	194,884	12,867,413	371,381	13,433,678
Reserved for materials and supplies inventory	67,327	-	12,059	79,386
Reserved for prepayments	30,392	-	32,156	62,548
Reserved for debt service	-	-	760,518	760,518
Reserved for property tax unavailable for appropriation	186,950	-	73,112	260,062
Reserved for instructional materials	141,867	-	-	141,867
Unreserved, undesignated (deficit) reported in:				
General fund	(841,522)	-	-	(841,522)
Special revenue funds	-	-	806,261	806,261
Capital projects funds	-	(1,108,186)	428,788	(679,398)
Total fund balances (deficit)	<u>(220,102)</u>	<u>11,759,227</u>	<u>2,484,275</u>	<u>14,023,400</u>
Total liabilities and fund balances	<u>\$ 7,071,567</u>	<u>\$ 20,033,003</u>	<u>\$ 5,309,168</u>	<u>\$ 32,413,738</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, 2010

Total governmental fund balances		\$ 14,023,400
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		56,953,645
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 558,487	
Intergovernmental revenue	4,801,594	
Accrued interest	<u>3,264</u>	
Total		5,363,345
Unamortized bond issuance costs are not recognized in the funds.		256,208
Unamortized premiums on bond issuances are not recognized in the funds.		(295,352)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,576,380)	
General obligation bonds payable	(23,190,000)	
Accrued interest payable	<u>(83,482)</u>	
Total		<u>(24,849,862)</u>
Net assets of governmental activities		<u><u>\$ 51,451,384</u></u>

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, 2010

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,437,402	\$ -	\$ 1,795,440	\$ 6,232,842
Tuition	1,240,882	-	-	1,240,882
Transportation fees	90,688	-	-	90,688
Earnings on investments	136,864	318,255	107,279	562,398
Charges for services	-	-	332,335	332,335
Extracurricular	-	-	206,047	206,047
Classroom materials and fees	-	-	35,212	35,212
Other local revenues	86,075	14,607	309,042	409,724
Intergovernmental - state	12,580,573	5,596,599	584,244	18,761,416
Intergovernmental - federal	-	-	3,512,054	3,512,054
Total revenue	<u>18,572,484</u>	<u>5,929,461</u>	<u>6,881,653</u>	<u>31,383,598</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,554,055	-	743,124	9,297,179
Special	2,407,784	-	1,119,690	3,527,474
Vocational	92,473	-	-	92,473
Other	848,602	-	8,120	856,722
Support services:				
Pupil	1,066,922	-	59,887	1,126,809
Instructional staff	482,095	-	864,596	1,346,691
Board of education	25,685	-	-	25,685
Administration	1,319,452	-	599,210	1,918,662
Fiscal	380,424	-	62,152	442,576
Operations and maintenance	1,624,617	101,485	61,773	1,787,875
Pupil transportation	1,362,487	-	197,344	1,559,831
Central	86,212	530	27,881	114,623
Operation of non-instructional services:				
Food service operations	-	-	914,434	914,434
Extracurricular activities	355,567	-	235,837	591,404
Facilities acquisition and construction	507	22,542,434	1,907,458	24,450,399
Debt service:				
Principal retirement	-	-	540,000	540,000
Interest and fiscal charges	-	-	1,069,340	1,069,340
Total expenditures	<u>18,606,882</u>	<u>22,644,449</u>	<u>8,410,846</u>	<u>49,662,177</u>
Excess of revenues over (under) expenditures	(34,398)	(16,714,988)	(1,529,193)	(18,278,579)
Other financing sources (uses):				
Sale of capital assets	117,295	-	-	117,295
Transfers in	-	-	150,000	150,000
Transfers (out)	(150,000)	-	-	(150,000)
Total other financing sources (uses)	<u>(32,705)</u>	<u>-</u>	<u>150,000</u>	<u>117,295</u>
Net change in fund balances	(67,103)	(16,714,988)	(1,379,193)	(18,161,284)
Fund balance at beginning of year	(163,588)	28,474,215	3,853,665	32,164,292
Decrease in reserve for inventory	10,589	-	9,803	20,392
Fund balances (deficit) at end of year	\$ (220,102)	\$ 11,759,227	\$ 2,484,275	\$ 14,023,400

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, 2010

Net change in fund balances - total governmental funds	\$	(18,161,284)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 (\$24,836,453) exceeds depreciation expense (\$331,860) in the current period.		24,504,593
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(48,018)
Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed.		20,392
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(107,145)
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.		540,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	1,716	
Amortization of bond issuance costs	(10,941)	
Amortization on bond premiums	12,613	
Total	3,388	
Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		37,081
Change in net assets of governmental activities	\$	6,789,007

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 (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,097,734	\$ 4,367,015	\$ 4,391,866	\$ 24,851
Tuition.	1,157,778	1,233,860	1,240,882	7,022
Transportation fees.	84,674	90,238	90,752	514
Earnings on investments.	127,698	136,090	136,864	774
Other local revenues.	73,304	78,121	78,566	445
Intergovernmental - state	11,738,840	12,510,250	12,581,443	71,193
Total revenue	<u>17,280,028</u>	<u>18,415,574</u>	<u>18,520,373</u>	<u>104,799</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,173,448	8,579,969	8,578,427	1,542
Special.	2,295,716	2,409,899	2,409,465	434
Vocational.	99,130	104,061	104,042	19
Other.	810,000	850,287	850,134	153
Support services:				
Pupil.	1,005,349	1,055,352	1,055,162	190
Instructional staff	458,274	481,068	480,981	87
Board of education	24,734	25,965	25,960	5
Administration.	1,326,298	1,392,264	1,392,014	250
Fiscal	361,614	379,599	379,531	68
Operations and maintenance.	1,618,675	1,699,183	1,698,877	306
Pupil transportation	1,377,216	1,445,714	1,445,454	260
Central.	51,459	54,019	54,009	10
Extracurricular activities.	347,900	365,204	365,138	66
Facilities acquisition and construction.	2,452	2,573	2,573	-
Total expenditures	<u>17,952,265</u>	<u>18,845,157</u>	<u>18,841,767</u>	<u>3,390</u>
Excess of revenues under expenditures.	<u>(672,237)</u>	<u>(429,583)</u>	<u>(321,394)</u>	<u>108,189</u>
Other financing sources (uses):				
Transfers (out)	(142,919)	(150,027)	(150,000)	27
Advances in.	48,348	51,525	51,818	293
Advances (out).	-	-	(45,490)	(45,490)
Sale of capital assets.	109,440	116,631	117,295	664
Refund of prior year expenditure.	62,184	66,270	66,647	377
Total other financing sources (uses)	<u>77,053</u>	<u>84,399</u>	<u>40,270</u>	<u>(44,129)</u>
Net change in fund balance	(595,184)	(345,184)	(281,124)	64,060
Fund balance at beginning of year.	822,314	822,314	822,314	-
Prior year encumbrances appropriated.	345,184	345,184	345,184	-
Fund balance at end of year	<u>\$ 572,314</u>	<u>\$ 822,314</u>	<u>\$ 886,374</u>	<u>\$ 64,060</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 27,612	\$ 35,267
Total assets.	27,612	\$ 35,267
Liabilities:		
Loans payable	-	\$ 6,755
Due to other governments	-	3
Due to students	-	28,509
Total liabilities	-	\$ 35,267
Net Assets:		
Held in trust for scholarships	27,612	
Total net assets	\$ 27,612	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 783
Miscellaneous	6,548
	7,331
Total additions.	7,331
Deductions:	
Scholarships awarded	2,000
Change in net assets	5,331
Net assets at beginning of year.	22,281
Net assets at end of year	\$ 27,612

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, 2010

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 221st largest by enrollment among the 905 public school districts and community schools in the State. It currently operates 3 elementary schools and 1 comprehensive high school. The District employs 168 certified and 117 classified full-time and part-time employees to provide services to approximately 2,226 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) guidance issued on or before November 30, 1989, to its governmental activities provided it does 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", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government and component units. 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, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

A. Reporting Entity (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Gallia-Jackson-Vinton Joint Vocational School District

The Gallia-Jackson-Vinton Joint Vocational School District (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 JVS 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.

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.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

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.

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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

B. Fund Accounting (Continued)

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.

Classroom facilities fund - A capital projects fund used to account for monies received and expended in connection with contracts entered into by the 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) financial resources to be used for the acquisition, construction, or improvement of capital facilities, (b) grants and other resources whose use is restricted to a particular purpose, (c) the accumulation of resources for the repayment of general obligation debt, and; (d) food service operation.

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's only trust fund is a private-purpose trust which accounts for scholarship programs for students. 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

C. Basis of Presentation and Measurement Focus (Continued)

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 Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

D. Basis of Accounting (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used 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. Allocations 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. On July 25, 2002, the Gallia County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15 and the filing by January 20. In order to complete other necessary documents, the Budget Commission now requires certain information to be filed by May 1. Information required includes the general fund five year forecast submitted to the Department of Education, projected revenues and expenditures line items for all levy funds, projected revenue and debt requirements (principal and interest) and amortization schedules for the debt service fund, and balances and total anticipated activity for all other funds.
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 of estimated resources 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 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

E. Budgets (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 year 2010. 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 earning 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 2010 amounted to \$136,864, which includes \$111,611 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, 2010

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 year 2010. 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>	<u>Governmental Activities 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

In the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column 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, 2010**

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, 2010, 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, 2010 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current 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, and instructional materials. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represent balances in special revenue funds for grants received which are restricted as to their use by grantors and the amounts for set-asides (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, 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 in order to create a reserve for textbooks/instructional materials. See Note 15 for details. Restricted assets in the Classroom Facilities fund represent cash held as retainage for contractors.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major governmental fund</u>	<u>Deficit</u>
General fund	\$ 220,102
 <u>Nonmajor governmental funds</u>	
Uniform school supplies	5,349
EMIS	193
IDEA, Part B	7,166
Education stabilization fund	118
IDEA preschool grant for the handicapped	8,140
Building fund	133,447

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances (Continued)

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.

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

Interim monies may 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 Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
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,

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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.

A. Restricted Cash

At fiscal year-end, \$681,130 was on deposit with a bank for retainage held as part of the District's construction contracts. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "restricted cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$19,425,004. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$7,450,000 of the District's bank balance of \$19,669,903 was covered by the Federal Deposit Insurance Corporation, while \$11,538,773 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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 note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	<u>\$ 19,425,004</u>
Total	<u>\$ 19,425,004</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 19,362,125
Private-purpose trust fund	27,612
Agency fund	<u>35,267</u>
Total	<u>\$ 19,425,004</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 39,285</u>
Total interfund loans receivable/payable		<u>\$ 39,285</u>

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.

Interfund loans between governmental funds are eliminated for reporting in the statement of net assets.

- B. Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The District had the following loan outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General fund	Agency fund	\$ 6,205
Nonmajor governmental funds	Agency fund	<u>550</u>
Total Loans receivable/payable		<u>\$ 6,755</u>

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

- C. Interfund transfers for the fiscal year ended June 30, 2010 consisted of the following transfers, as reported in the fund financial statements:

	<u>Amount</u>
<u>Transfers out of general fund to:</u>	
Nonmajor governmental funds	<u>\$ 150,000</u>
Total	<u>\$ 150,000</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$186,950 in the general fund, \$60,536 in the bond retirement debt service fund (a nonmajor governmental fund), \$8,368 in the permanent improvement capital projects fund (a nonmajor governmental fund) and \$4,208 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$91,624 in the general fund, \$29,674 in the bond retirement debt service fund (a nonmajor governmental fund), \$4,104 in the permanent improvement capital projects fund (a nonmajor governmental fund) and \$2,065 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the 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, 2010 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

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 unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 222,765,510	95.52	\$ 225,952,970	95.22
Public utility personal	6,193,461	2.66	10,770,950	4.54
Tangible personal property	<u>4,250,859</u>	<u>1.82</u>	<u>564,630</u>	<u>0.24</u>
Total	<u>\$ 233,209,830</u>	<u>100.00</u>	<u>\$ 237,288,550</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
General operations	\$31.00		\$31.00	
Bond retirement	7.20		7.20	
Permanent improvements	1.50		1.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts, 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	\$ 7,867,315
Accounts	57,698
Intergovernmental	4,923,223
Accrued interest	<u>15,403</u>
Total	<u>\$ 12,863,639</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

<u>Governmental activities:</u>	Balance <u>06/30/09</u>	Additions	Deletions	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 986,120	\$ -	\$ -	\$ 986,120
Construction-in-progress	<u>29,530,832</u>	<u>24,437,040</u>	<u>(27,471,883)</u>	<u>26,495,989</u>
<i>Total capital assets, not being depreciated</i>	<u>30,516,952</u>	<u>24,437,040</u>	<u>(27,471,883)</u>	<u>27,482,109</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,436,499	-	-	1,436,499
Buildings and improvements	4,792,633	27,471,883	-	32,264,516
Equipment and furniture	1,979,766	233,836	(15,955)	2,197,647
Vehicles	<u>2,318,263</u>	<u>165,577</u>	<u>(61,690)</u>	<u>2,422,150</u>
<i>Total capital assets, being depreciated</i>	<u>10,527,161</u>	<u>27,871,296</u>	<u>(77,645)</u>	<u>38,320,812</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,038,975)	(43,989)	-	(1,082,964)
Buildings and improvements	(4,051,071)	(43,725)	-	(4,094,796)
Equipment and furniture	(1,656,237)	(106,493)	6,493	(1,756,237)
Vehicles	<u>(1,800,760)</u>	<u>(137,653)</u>	<u>23,134</u>	<u>(1,915,279)</u>
<i>Total accumulated depreciation</i>	<u>(8,547,043)</u>	<u>(331,860)</u>	<u>29,627</u>	<u>(8,849,276)</u>
Total capital assets, net	<u>\$ 32,497,070</u>	<u>\$ 51,976,476</u>	<u>\$ (27,519,901)</u>	<u>\$ 56,953,645</u>

Depreciation expense was charged to the governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 75,325
Special	25,479
<u>Support services:</u>	
Pupil	3,139
Instructional staff	4,509
Administration	8,529
Operations and maintenance	31,289
Pupil transportation	136,140
Central	599
Other non-instructional services	119
Extracurricular activities	37,064
Food service operations	<u>9,668</u>
Total depreciation expense	<u>\$ 331,860</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

<u>Governmental activities:</u>	<u>Balance</u> <u>6/30/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/10</u>	<u>Amounts Due</u> <u>In One Year</u>
General obligation bonds	\$ 23,730,000	\$ -	\$ (540,000)	\$ 23,190,000	\$ 565,000
Compensated absences	<u>1,654,263</u>	<u>77,216</u>	<u>(155,099)</u>	<u>1,576,380</u>	<u>77,216</u>
Total	<u>\$ 25,384,263</u>	<u>\$ 77,216</u>	<u>\$ (695,099)</u>	\$ 24,766,380	<u>\$ 642,216</u>
Unamortized premium				<u>295,352</u>	
Total on statement of net assets				<u>\$ 25,061,732</u>	

Compensated absences will be paid out of the fund from which the employee's salary is paid, which is primarily the general fund for the District.

- 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 mil 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). The OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2010, the total estimated cost of the Construction Project is \$27,925,959, of which the OSFC will pay approximately \$17,872,614.

The OSFC has also approved funding of \$17,010,726 for elementary school construction projects.

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, 2010

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	General Obligation Bonds			
	June 30	Principal	Interest	Total
2011	\$ 565,000	\$ 1,058,540	\$ 1,623,540	
2012	585,000	1,035,940	1,620,940	
2013	610,000	1,012,540	1,622,540	
2014	635,000	988,140	1,623,140	
2015	660,000	962,740	1,622,740	
2016 - 2020	3,755,000	4,356,095	8,111,095	
2021 - 2025	4,695,000	3,414,688	8,109,688	
2026 - 2030	5,875,000	2,233,075	8,108,075	
2031 - 2034	5,810,000	675,025	6,485,025	
Total	\$ 23,190,000	\$ 15,736,783	\$ 38,926,783	

C. Legal Debt Margins

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 indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District.

The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

In accordance with the above calculations, as of June 30, 2010, the District has exceeded the legal voted debt margin by \$1,063,793, the legal unvoted debt margin was \$236,724, and the legal energy conservation debt margin was \$2,130,515.

The District's Board of Education received approval to become a special needs district and issue bonds in excess of the 9% debt limitation.

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 2010, the District purchased general liability insurance through the Schools of Ohio Risk Sharing Authority (SORSA), which carried a \$2 million per occurrence/\$4 million annual aggregate limitation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 10 - RISK MANAGEMENT - (Continued)

Fleet and property/casualty insurance are also purchased through SORSA 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.

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 2010, 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - 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 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$315,530, \$208,937 and \$208,350, respectively; 48.31 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, 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 recommendations 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 pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,363,969, \$1,321,998 and \$1,338,328, respectively; 83.83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$31,175 made by the District and \$22,268 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$45,418, \$127,885 and \$126,936, respectively; 48.31 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$18,764, \$17,239 and \$15,012, respectively; 48.31 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$104,921, \$101,692 and \$102,948, respectively; 83.83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 revenues, 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); and,
- (d) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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	\$ (281,124)
Net adjustment for revenue accruals	52,111
Net adjustment for expenditure accruals	23,796
Net adjustment for other financing sources/uses	(190,270)
Adjustment for encumbrances	328,384
GAAP basis	\$ (67,103)

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. Litigations

The District is involved in no material litigation as either a plaintiff or defendant.

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by State statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance at June 30, 2009 (restated)	\$ 285,843	\$ -
Current year set-aside requirement	298,403	298,403
Current year offsets:		
Principal portion of bond levy	-	(540,000)
Permanent improvement levy	-	(199,206)
Current year qualifying expenditures	(442,379)	-
Set-aside balance at June 30, 2010	\$ 141,867	\$ (440,803)
Balance carried forward to fiscal year 2011	\$ 141,867	\$ -

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - STATUTORY RESERVES (Continued)

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for instructional materials	<u>\$ 141,867</u>
Total restricted assets	<u>\$ 141,867</u>

NOTE 16 - CONTRACTUAL COMMITMENTS

As of June 30, 2010, the District was obligated for the following contracts:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Payments as of 06/30/10</u>	<u>Contract Balance 06/30/10</u>
A.J. Stockmeister	\$ 657,489	\$ -	\$ 657,489
Best Restaurant	258,000	235,826	22,174
Brewer & Company	224,830	83,395	141,435
Central Fire	230,886	214,692	16,194
Central Masonry	1,119,171	1,040,133	79,038
Claypool Electric	5,204,860	1,961,124	3,243,736
Econco	3,212,656	988,386	2,224,270
Greg Stevens Construction	539,021	357,318	181,703
J & H Reinforcing & Structural Erectors	2,356,294	2,039,974	316,320
Johnson-Lancaster & Associates	269,438	83,756	185,682
Kinsale Corporation	4,912,554	3,220,264	1,692,290
Land Masonry	1,151,880	1,098,424	53,456
Louis R. Polster Company	277,600	167,516	110,084
Mechanical Construction	5,334,731	5,050,785	283,946
Nitro Electric Company	4,342,127	4,285,963	56,164
Oakland Plumbing Company	686,905	512,659	174,246
RAME	911,753	883,553	28,200
Reddy Electric	1,665,698	1,270,162	395,536
the Tarrier Steel Company	925,956	890,652	35,304
TP Mechanical	2,291,749	2,008,283	283,466
Trimat Construction	16,829,218	11,885,033	4,944,185
Trisco Systems	253,350	5,092	248,258
Wasserstrom	<u>329,250</u>	<u>-</u>	<u>329,250</u>
Total	<u>\$ 53,985,416</u>	<u>\$ 38,282,990</u>	<u>\$ 15,702,426</u>

Gallipolis City School District
Gallia County
Schedule of Receipts and Expenditures of Federal Awards
For the Year Ended June 30, 2010

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>						
School Breakfast Program	3L70	10.553	\$ 169,955	\$ -	\$ 169,955	\$ -
National School Lunch Program	3L60	10.555	370,435	24,989	370,435	24,989
Total Nutrition Cluster			540,390	24,989	540,390	24,989
Total United States Department of Agriculture			540,390	24,989	540,390	24,989
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	3M20	84.027	529,227	-	560,997	-
Special Education - Preschool Grants	3C50	84.173	11,510	-	12,043	-
ARRA Special Education - Grants to States, Recovery Act	3DJ0	84.391	261,640	-	243,671	-
ARRA Special Education - Preschool Grants, Recovery Act	3DL0	84.392	15,985	-	14,854	-
Total Special Education Cluster			818,362	-	831,565	-
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	797,989	-	805,190	-
ARRA Title I Grants to Local Educational Agencies, Recovery Act	3DK0	84.389	275,460	-	258,971	-
Total Title I, Part A Cluster			1,073,449	-	1,064,161	-
Safe and Drug-Free Schools and Communities - State Grants	3D10	84.186	9,606	-	10,264	-
Twenty-First Century Community Learning Centers	3Y20	84.287	-	-	17,064	-
Education Technology State Grants	3S20	84.318	7,542	-	7,720	-
Rural Education	3Y80	84.358	67,521	-	74,762	-
Improving Teacher Quality State Grants	3Y60	84.367	168,500	-	164,450	-
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	GRF	84.394	766,518	-	742,411	-
Total United States Department of Education			2,911,498	-	2,912,397	-
Total Federal Financial Assistance			\$ 3,451,888	\$ 24,989	\$ 3,452,787	\$ 24,989

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards.

Gallipolis City School District
Notes to Schedule of Receipts and Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

Nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received as assessed by the U.S. Department of Agriculture. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2010, the School District had no significant food commodities in inventory.

NOTE C – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District, Gallia County, Ohio, (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 1, 2011, wherein we noted that the School District implemented GASB Statements No. 51, No. 53, and No. 58. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Members of the Board
Gallipolis City School District
Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required By
Government Auditing Standards
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and others within the School District. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

March 1, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY 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 the Gallipolis City School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Gallipolis City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Gallipolis City School District, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect on a major federal program, in order to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Members of the Board, others within the School District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

March 1, 2011

Gallipolis City School District
Schedule of Findings
OMB Circular A-133 Section .505
June 30, 2010

Summary of Auditor's Results

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control 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 Section .510(a)?	No
<i>(d)(1)(vii)</i>	Major Program(s) (list):	Special Education Cluster: Special Education IDEA Part B: CFDA #84.027 Special Education IDEA Preschool: CFDA #84.173 Special Education IDEA Part B (ARRA): CFDA #84.391 Special Education IDEA Preschool (ARRA): CFDA #84.392 State Fiscal Stabilization Fund (SFSF)-Education State Grants (ARRA) - CFDA #84.394 Title I, Part A Cluster: Title I Grants to Local Educational Agencies: CFDA #84.010 Title I Grants to Local Educational Agencies (ARRA): CFDA #84.389
<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

Gallipolis City School District
Schedule of Findings
OMB Circular A-133 Section .505
June 30, 2010

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Dave Yost • 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 5, 2011**