



Dave Yost • Auditor of State

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	17
Statement of Fiduciary Assets and Liabilities	18
Notes to the Basic Financial Statements	19
Federal Awards Receipts and Expenditures Schedule.....	43
Notes to the Federal Awards Receipts and Expenditures Schedule	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	47
Schedule of Findings and Questioned Costs – OMB Circular A-133 § .505	49
Corrective Action Plan – OMB Circular A-133 § .315(c).....	51

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio, as of June 30, 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 22, 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 the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditure Schedule (the Schedule) provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 22, 2011

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

The discussion and analysis of the Wellston City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2010 are as follows:

- Net assets of governmental activities increased \$469,741.
- General revenues accounted for \$13,745,404 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,583,046 or 25 percent of total revenues of \$18,328,450.
- The School District had \$17,858,709 in expenses related to governmental activities; only \$4,583,046 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$13,745,404 were adequate to cover the remaining expenses.

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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Fiduciary Funds The School District accounts for resources held for the benefit of parties outside the government as fiduciary funds. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the School District's own programs. The School District uses accrual accounting for its fiduciary fund.

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$13,907,226	\$16,848,165	(\$2,940,939)
Capital Assets	36,556,199	33,671,150	2,885,049
Total Assets	50,463,425	50,519,315	(55,890)
Liabilities			
Long-Term Liabilities	3,184,960	3,375,441	(190,481)
Other Liabilities	4,852,872	5,188,022	(335,150)
Total Liabilities	8,037,832	8,563,463	(525,631)
Net Assets			
Invested in Capital Assets, Net of Related Debt	34,056,199	31,036,150	3,020,049
Restricted	2,510,023	5,020,316	(2,510,293)
Unrestricted	5,859,371	5,899,386	(40,015)
Total Net Assets	\$42,425,593	\$41,955,852	\$469,741

Total assets of governmental activities decreased \$55,890. This is primarily due to decreases in cash and cash equivalents in the amount of \$630,834, and intergovernmental receivable in the amount of \$2,325,220, offset by an increase in capital assets in the amount of \$2,885,049, all of which are the result of the School District's classroom facilities construction project. This construction project is allowing the School District to make needed renovations and repairs to the middle school and high school facilities.

In total, liabilities decreased \$525,631. This is due to decreases in contracts payable in the amount of \$417,414 and long-term liabilities of \$190,481, offset by an increase in deferred revenue in the amount of \$125,555. The reduction in contracts payable is due to the completion of the School District's classroom facilities construction project. The decreases in long-term liabilities are the result of annual debt service payments. The increase in deferred revenue is due to the timing of property tax and intergovernmental receipts.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010, and comparisons to fiscal year 2009.

Wellston City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year June 30, 2010
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues:			
Charges for Services	\$842,292	\$922,561	(\$80,269)
Operating Grants, Contributions and Interest	3,666,676	3,722,279	(55,603)
Capital Grants, Contributions and Interest	74,078	72,592	1,486
	<u>4,583,046</u>	<u>4,717,432</u>	<u>(134,386)</u>
General Revenues:			
Property Taxes	2,233,996	2,499,491	(265,495)
Grants and Entitlements	11,426,542	12,063,240	(636,698)
Investment Earnings	41,582	117,932	(76,350)
Gifts and Donations	0	100	(100)
Insurance Recoveries	7,000	999,883	(992,883)
Miscellaneous	36,284	5,037	31,247
	<u>13,745,404</u>	<u>15,685,683</u>	<u>(1,940,279)</u>
Total Revenues	<u>18,328,450</u>	<u>20,403,115</u>	<u>(2,074,665)</u>
Program Expenses			
Instruction:			
Regular	6,987,411	6,655,914	(331,497)
Special	2,490,232	2,663,408	173,176
Vocational	93,526	150,266	56,740
Student Intervention Services	45,536	107,859	62,323
Support Services:			
Pupils	838,597	825,671	(12,926)
Instructional Staff	1,202,945	1,353,645	150,700
Board of Education	194,761	167,234	(27,527)
Administration	1,434,581	1,384,834	(49,747)
Fiscal	462,372	436,376	(25,996)
Operation and Maintenance of Plant	1,656,451	1,069,860	(586,591)
Pupil Transportation	989,399	952,219	(37,180)
Central	94,052	100,520	6,468
Operation of Non-Instructional Services:			
Food Service Operations	749,637	789,008	39,371
Community Services	154,307	196,314	42,007
Extracurricular Activities	328,987	346,722	17,735
Interest and Fiscal Charges	135,915	141,802	5,887
Total Expenses	<u>17,858,709</u>	<u>17,341,652</u>	<u>(517,057)</u>
Increase in Net Assets	469,741	3,061,463	(2,591,722)
Net Assets at Beginning of Year	<u>41,955,852</u>	<u>38,894,389</u>	<u>3,061,463</u>
Net Assets at End of Year	<u>\$42,425,593</u>	<u>\$41,955,852</u>	<u>\$469,741</u>

Governmental Activities

Property taxes made up approximately 12.2 percent of revenues for governmental activities for the Wellston City School District. Of the remaining revenues, the School District receives 82.7 percent from state foundation, federal, and state grants; 4.6 percent from charges for services; and 0.5 percent from interest, insurance recoveries, and local entities.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increases in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. This legislation helps explain the relatively sizable decrease in the School District's taxable value accompanied by the relatively small decrease in tax revenue. Property taxes made up just 12.2 percent of revenues for governmental activities for Wellston City School District in 2010. Additionally, increases in property taxes would only have a nominal effect upon the School District's total revenue. This is due to the funding formula in place in Ohio, any increase in property tax revenue would be offset by a corresponding decrease in state funding the School District would receive.

Over 53.8 percent of the School District's budget is used to fund instructional expenses. Support services make up 38.5 percent of expenses and 7.7 percent is used for fiscal charges, extracurricular activities, and non-instructional services.

During the fiscal year, the School District experienced changes in the following: a 7.7 percent increase in employee insurance costs, a negotiated 2.0 percent salary increase, and increases in utility and fuel costs.

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

**Table 3
Governmental Activities**

	2010 Total Cost of Services	2010 Net Cost of Services	2009 Total Cost of Services	2009 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$6,987,411	\$5,612,626	\$6,655,914	\$4,992,635
Special	2,490,232	1,443,198	2,663,408	1,589,500
Vocational	93,526	68,215	150,266	125,144
Student Intervention Services	45,536	24,681	107,859	46,748
Support Services:				
Pupils	838,597	578,985	825,671	641,692
Instructional Staff	1,202,945	645,313	1,353,645	948,016
Board of Education	194,761	173,578	167,234	161,882
Administration	1,434,581	1,378,241	1,384,834	1,333,178
Fiscal	462,372	400,095	436,376	331,774
Operation and Maintenance of Plant	1,656,451	1,551,728	1,069,860	1,001,210
Pupil Transportation	989,399	929,971	952,219	893,329
Central	94,052	89,052	100,520	95,520
Operation of Non-Instructional Services:				
Food Service Operations	749,637	(27,189)	789,008	7,188
Community Services	154,307	91,307	196,314	127,815
Extracurricular Activities	328,987	179,947	346,722	186,787
Interest and Fiscal Charges	135,915	135,915	141,802	141,802
Totals	\$17,858,709	\$13,275,663	\$17,341,652	\$12,624,220

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

As you can see, the reliance upon local tax revenues for governmental activities is crucial. 12.5 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs supported 64.0 percent of expenses. Program revenue supported 25.6 percent of expenses, while investments and other miscellaneous types of revenues supported the remaining activity costs. The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2010, approximately 74.3 percent of instruction activities were supported through taxes and other general revenues.

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,342,048 and expenditures of \$20,950,418.

General Fund Budgeting Highlights

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

During the course of fiscal 2010, the School District did amend its general fund estimated revenues numerous times. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate was \$12,945,268, which represented an increase of \$784,432, or 6.5 percent from original estimates of \$12,160,836. This difference was due to incorrect assumptions regarding the School District's proceeds from the American Recovery and Reinvestment Act. The final budget basis expenditure estimate of \$14,600,000 represented a \$66,497, or 0.4 percent decrease from the original estimates of \$14,666,497.

The School District's ending unobligated general fund balance was \$7,169,826.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the School District had \$36,556,199 invested in land, construction in progress, land improvements, buildings, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2010 balances compared to 2009

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

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

	Governmental Activities	
	2010	2009
Land	\$189,885	\$153,935
Construction in Progress	4,526,123	905,619
Land Improvements	107,213	37,321
Buildings and Improvements	29,473,887	30,101,644
Furniture, Fixtures, and Equipment	1,279,379	1,475,282
Vehicles	480,796	583,972
Textbooks	498,916	413,377
Totals	<u>\$36,556,199</u>	<u>\$33,671,150</u>

For additional information on capital assets, see Note 14 to the basic financial statements.

Debt

At June 30, 2010, the School District had general obligation bonds outstanding in the amount of \$2,500,000. For additional information on debt, see Note 18 to the basic financial statements.

CURRENT ISSUES

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

Externally, the School District is largely dependent on State funding sources (approximately 83 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. Though School District did see a slight increase in student enrollment and State revenue growth has shifted toward school districts with low property tax wealth, future enrollment estimates continue to indicate a declining enrollment which will serve to offset any increase in State funding.

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

As the preceding information shows, the School District continues to depend upon its taxpayers. Although the School District has kept spending in line with revenues, and carefully watched financial planning, it must keep its revenue to expense ratios improving if the School District hopes to remain on firm financial footing.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2010

Unaudited

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Wellston City School District, Ohio
Statement of Net Assets
June 30, 2010

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,844,053
Cash and Cash Equivalents in Segregated Accounts	286,906
Materials and Supplies Inventory	16,844
Accrued Interest Receivable	617
Intergovernmental Receivable	354,091
Property Taxes Receivable	3,379,186
Accounts Receivable	25,529
Nondepreciable Capital Assets	4,716,008
Depreciable Capital Assets, Net	31,840,191
<i>Total Assets</i>	50,463,425
Liabilities	
Accounts Payable	108,299
Accrued Wages and Benefits Payable	1,303,634
Contracts Payable	262,836
Retainage Payable	89,951
Intergovernmental Payable	442,472
Deferred Revenue	2,602,256
Accrued Interest Payable	10,932
Vacation Benefits Payable	32,492
Long-Term Liabilities:	
Due within One Year	232,957
Due in More than One Year	2,952,003
<i>Total Liabilities</i>	8,037,832
Net Assets	
Invested in Capital Assets, Net of Related Debt	34,056,199
Restricted for:	
Budget Stabilization	56,688
Bus Purchase	17,651
Expendable	155,524
Debt Service	1,140,022
Capital Projects	273,242
Other Purposes	866,896
Unrestricted	5,859,371
<i>Total Net Assets</i>	\$42,425,593

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June, 30, 2010

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$6,987,411	\$482,713	\$864,021	\$28,051	(\$5,612,626)
Special	2,490,232	0	1,047,034	0	(1,443,198)
Vocational	93,526	0	25,311	0	(68,215)
Student Intervention Services	45,536	0	20,855	0	(24,681)
Support Services:					
Pupils	838,597	0	259,612	0	(578,985)
Instructional Staff	1,202,945	0	557,632	0	(645,313)
Board of Education	194,761	0	21,183	0	(173,578)
Administration	1,434,581	0	56,340	0	(1,378,241)
Fiscal	462,372	0	62,277	0	(400,095)
Operation and Maintenance of Plant	1,656,451	0	82,306	22,417	(1,551,728)
Pupil Transportation	989,399	0	35,818	23,610	(929,971)
Central	94,052	0	5,000	0	(89,052)
Operation of Non-Instructional Services:					
Food Service Operations	749,637	234,656	542,170	0	27,189
Community Services	154,307	0	63,000	0	(91,307)
Extracurricular Activities	328,987	124,923	24,117	0	(179,947)
Interest and Fiscal Charges	135,915	0	0	0	(135,915)
Totals	\$17,858,709	\$842,292	\$3,666,676	\$74,078	(13,275,663)
General Revenues					
Property Taxes Levied for:					
General Purposes					1,993,053
Debt Service					202,269
Classroom Facilities Maintenance					38,674
Grants and Entitlements not Restricted to Specific Programs					11,405,869
Ohio School Facilities Commission					20,673
Investment Earnings					41,582
Insurance Recoveries					7,000
Miscellaneous					36,284
Total General Revenues					13,745,404
Change in Net Assets					469,741
Net Assets at Beginning of Year					41,955,852
Net Assets at End of Year					\$42,425,593

See accompanying notes to the basic financial statements.

Wellston City School District, 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	\$7,174,274	\$122,112	\$2,473,328	\$9,769,714
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	74,339	0	0	74,339
Cash and Cash Equivalents in Segregated Accounts	0	286,906	0	286,906
Receivables:				
Property Taxes	3,012,327	0	366,859	3,379,186
Intergovernmental	28,109	20,673	305,309	354,091
Interfund	166,644	0	0	166,644
Accrued Interest	617	0	0	617
Accounts	16,830	7,000	1,699	25,529
Materials and Supplies Inventory	0	0	16,844	16,844
Total Assets	\$10,473,140	\$436,691	\$3,164,039	\$14,073,870
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$98,644	\$0	\$9,655	\$108,299
Accrued Wages and Benefits Payable	1,015,713	0	287,921	1,303,634
Contracts Payable	0	258,116	4,720	262,836
Retainage Payable	0	89,951	0	89,951
Interfund Payable	0	0	166,644	166,644
Intergovernmental Payable	363,280	0	79,192	442,472
Deferred Revenue	2,863,784	27,673	364,900	3,256,357
Total Liabilities	4,341,421	375,740	913,032	5,630,193
Fund Balances				
Reserved for Encumbrances	51,491	228,727	59,428	339,646
Reserved for Budget Stabilization	56,688	0	0	56,688
Reserved for Bus Purchases	17,651	0	0	17,651
Reserved for Property Taxes	161,826	0	19,735	181,561
Unreserved, Undesignated, Reported in:				
General Fund	5,844,063	0	0	5,844,063
Special Revenue Funds	0	0	783,612	783,612
Capital Projects Funds (Deficit)	0	(167,776)	151,338	(16,438)
Debt Service Fund	0	0	1,083,395	1,083,395
Permanent Funds	0	0	153,499	153,499
Total Fund Balances	6,131,719	60,951	2,251,007	8,443,677
Total Liabilities and Fund Balances	\$10,473,140	\$436,691	\$3,164,039	\$14,073,870

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2010*

Total Governmental Fund Balances		\$8,443,677
 <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 are not reported in the funds.		36,556,199
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	595,369	
Grants	37,061	
Miscellaneous Revenues	14,671	
Insurance Recoveries	7,000	654,101
Accrued interest payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(10,932)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(2,500,000)	
Sick Leave Benefits Payable	(684,960)	
Vacation Benefits Payable	(32,492)	(3,217,452)
Net Assets of Governmental Activities		\$42,425,593

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,023,664	\$0	\$265,210	\$2,288,874
Intergovernmental	10,405,434	1,125,937	3,527,200	15,058,571
Investment Earnings	41,582	14,349	2,205	58,136
Tuition and Fees	460,672	0	17,288	477,960
Charges for Services	0	0	234,656	234,656
Extracurricular	0	0	124,923	124,923
Rent	4,753	0	0	4,753
Donations	10,000	0	62,562	72,562
Miscellaneous	9,901	0	11,712	21,613
<i>Total Revenues</i>	<u>12,956,006</u>	<u>1,140,286</u>	<u>4,245,756</u>	<u>18,342,048</u>
Expenditures				
Current:				
Instruction:				
Regular	5,945,947	0	986,272	6,932,219
Special	1,395,925	0	996,022	2,391,947
Vocational	87,096	0	0	87,096
Student Intervention Services	12,500	0	57,840	70,340
Support Services:				
Pupils	510,918	0	270,616	781,534
Instructional Staff	581,644	0	532,665	1,114,309
Board of Education	166,470	0	28,291	194,761
Administration	1,310,111	0	56,451	1,366,562
Fiscal	430,191	0	11,566	441,757
Operation and Maintenance of Plant	1,477,729	80,091	56,641	1,614,461
Pupil Transportation	786,832	0	51,719	838,551
Central	101,090	0	5,415	106,505
Operation of Non-Instructional Services:				
Food Service Operations	0	0	762,705	762,705
Community Services	107	0	38,414	38,521
Extracurricular Activities	174,333	0	142,900	317,233
Capital Outlay	0	3,620,504	0	3,620,504
Debt Service:				
Principal Retirement	0	0	135,000	135,000
Interest and Fiscal Charges	0	0	136,413	136,413
<i>Total Expenditures</i>	<u>12,980,893</u>	<u>3,700,595</u>	<u>4,268,930</u>	<u>20,950,418</u>
<i>Excess of Revenues Under Expenditures</i>	(24,887)	(2,560,309)	(23,174)	(2,608,370)
Other Financing Sources				
Proceeds from Sale of Capital Assets	4,730	0	0	4,730
<i>Net Change in Fund Balance</i>	(20,157)	(2,560,309)	(23,174)	(2,603,640)
<i>Fund Balances at Beginning of Year</i>	<u>6,151,876</u>	<u>2,621,260</u>	<u>2,274,181</u>	<u>11,047,317</u>
<i>Fund Balances at End of Year</i>	<u>\$6,131,719</u>	<u>\$60,951</u>	<u>\$2,251,007</u>	<u>\$8,443,677</u>

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances - Total Governmental Funds (\$2,603,640)

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

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

Capital Asset Additions	4,021,695	
Depreciation Expense	<u>(1,100,870)</u>	2,920,825

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

(35,776)

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

Grants	19,609	
Miscellaneous Revenue	14,671	
Insurance Recoveries	7,000	
Delinquent Taxes	<u>(54,878)</u>	(13,598)

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

135,000

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

498

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Sick Leave Benefits Payable	55,481	
Vacation Benefits Payable	<u>10,951</u>	<u>66,432</u>

Change in Net Assets of Governmental Activities \$469,741

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$1,932,939	\$2,060,334	\$2,024,023	(\$36,311)
Intergovernmental	9,735,361	10,358,784	10,377,490	18,706
Investment Earnings	41,834	44,629	41,736	(2,893)
Tuition and Fees	426,515	455,011	460,672	5,661
Rent	8,015	8,550	8,530	(20)
Donations	10,093	10,100	10,000	(100)
Miscellaneous	6,079	7,860	8,857	997
<i>Total Revenues</i>	<u>12,160,836</u>	<u>12,945,268</u>	<u>12,931,308</u>	<u>(13,960)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,735,374	6,533,260	6,021,259	512,001
Special	1,629,814	1,539,375	1,439,401	99,974
Vocational	187,224	101,560	99,941	1,619
Student Intervention Services	61,102	16,656	12,500	4,156
Support Services:				
Pupils	637,012	587,391	515,401	71,990
Instructional Staff	941,707	842,374	645,124	197,250
Board of Education	220,423	227,205	194,228	32,977
Administration	1,306,026	1,390,042	1,315,347	74,695
Fiscal	617,469	463,251	421,754	41,497
Operation and Maintenance of Plant	2,017,765	1,666,554	1,401,629	264,925
Pupil Transportation	977,488	918,709	783,375	135,334
Central	104,822	94,784	92,311	2,473
Operation of Non-Instructional Activities:				
Food Service Operations	157	158	108	50
Extracurricular Activities	230,114	218,681	172,846	45,835
<i>Total Expenditures</i>	<u>14,666,497</u>	<u>14,600,000</u>	<u>13,115,224</u>	<u>1,484,776</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,505,661)</u>	<u>(1,654,732)</u>	<u>(183,916)</u>	<u>1,470,816</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	4,265	4,550	4,730	180
Advances In	50,873	54,272	54,152	(120)
Advances Out	0	(60,000)	(52,312)	7,688
<i>Total Other Financing Sources (Uses)</i>	<u>55,138</u>	<u>(1,178)</u>	<u>6,570</u>	<u>7,748</u>
<i>Net Change in Fund Balance</i>	<u>(2,450,523)</u>	<u>(1,655,910)</u>	<u>(177,346)</u>	<u>1,478,564</u>
<i>Fund Balance at Beginning of Year</i>	7,282,139	7,282,139	7,282,139	0
Prior Year Encumbrances Appropriated	65,033	65,033	65,033	0
<i>Fund Balance at End of Year</i>	<u>\$4,896,649</u>	<u>\$5,691,262</u>	<u>\$7,169,826</u>	<u>\$1,478,564</u>

See accompanying notes to the basic financial statements.

Wellston City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2010

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$68,444</u></u>
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Liabilities

Due to Students	<u><u>\$68,444</u></u>
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See accompanying notes to the basic financial statements.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 82 classified employees, 117 certified teaching personnel, and 6 administrators, who provide services to 1,655 students and other community members.

Reporting Entity

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

The following activity is included within the reporting entity:

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

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

The School District participates in the Southeastern Ohio Voluntary Education Cooperative, the Gallia-Jackson-Vinton Joint Vocational School District, and the Coalition of Rural and Appalachian Schools which are defined as jointly governed organizations. The School District also participates in the Schools of Ohio Risk Sharing Authority (SORSA), and Ohio School Boards Association Workers' Compensation Group Rating Plan which are defined as insurance purchasing pools. These organizations are presented in Notes 9 and 10.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Wellston City School District, 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)

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

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

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

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

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

C. Measurement Focus

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

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

Wellston City School District, 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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

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

The School District has segregated bank accounts for monies retained by the School District which are being used during construction to insure satisfactory completion of the school facilities project. These accounts are presented on the balance sheet as "cash and cash equivalents in segregated accounts" since they are kept separate from the School District treasury.

During fiscal year 2010, investments were limited to non-negotiable certificates of deposit, which are reported at cost, and to the State Treasury Asset Reserve of Ohio (STAROhio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2010.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue is credited to the General Fund; the Education Foundation and Classroom Maintenance Special Revenue Funds; the Bond Retirement Debt Service Fund; the Classroom Facilities Capital Projects Fund; and the Mantz, Hedges, and Harless Scholarship Permanent Funds. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$41,582, which includes \$12,029 assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

G. Inventory

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

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Capital Assets

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

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

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

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

I. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used aren’t eliminated.

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as “vacation benefits payable”, rather than long-term liabilities as the balances for most employees are to be used by employees in the fiscal year following the fiscal year in which the benefit was earned.

Wellston City School District, 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 (Continued)

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

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 fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

L. Fund Balance Reserves

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

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

M. Interfund Balances

Interfund receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

N. Estimates

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

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 2 - Summary of Significant Accounting Policies (Continued)

O. Net Assets

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

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

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

P. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Allocations of appropriations to the function and object levels are made by the Treasurer.

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

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

Note 3 - Changes in Accounting Principles

For 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets"; Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments"; Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"; and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 3 - Changes in Accounting Principles (Continued)

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any material change to the School District's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides 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. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's financial statements.

Note 4 - Fund Deficits

The following funds had deficit fund balances as of June 30, 2010:

	<u>Deficit</u>
Special Revenue Funds:	
Public Preschool	\$1,282
Poverty Based Assistance	31
Title VI-B Idea	41,649
State Stabilization	63,290
Title II-D	110
School Improvement A	93
School Improvement G	384
Handicapped Preschool	120
Title II-A	8,744

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

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance

GAAP Basis	(\$20,157)
Revenue Accruals	(24,698)
Expenditure Accruals	(55,544)
Advances	1,840
Encumbrances	<u>(78,787)</u>
Budget Basis	<u><u>(\$177,346)</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - Deposits and Investments (Continued)

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,598,203 of the School District's bank balance of \$3,178,569 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments As of June 30, 2010, the School District's investment in STAROhio had an average maturity of 56 days and a fair value of \$7,078,905.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 6 - Deposits and Investments (Continued)

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

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR-Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009, and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2010 (other than public utility property) represents 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. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 7 - Property Taxes (Continued)

Accrued property taxes receivable includes real, tangible personal property, and public utility 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 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations.

The amount available as an advance at June 30, 2010, was \$161,826 in the General Fund, \$15,788 in the Bond Retirement Debt Service Fund, and \$3,947 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2009, was \$162,185 in the General Fund, \$21,756 in the Bond Retirement Debt Service Fund, and \$3,956 in the Classroom Facilities Maintenance Special Revenue Fund.

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

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

	<u>2009 Second- Half Collections</u>		<u>2010 First- Half Collections</u>	
Real Property	\$100,321,620	88.69%	\$101,123,530	92.26%
Public Utility Property	7,815,110	6.91%	8,213,940	7.49%
Tangible Personal Property	<u>4,979,090</u>	<u>4.40%</u>	<u>273,790</u>	<u>0.25%</u>
Total	<u>\$113,115,820</u>	<u>100.00%</u>	<u>\$109,611,260</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation		\$23.80		\$25.00

Note 8 - Receivables

Receivables at June 30, 2010, consisted of property taxes, interfund, accrued interest, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

<u>Governmental Activities</u>	<u>Amounts</u>
Ohio School Facilities Commission	\$20,673
Community Alternative Funding System	\$495
Auxiliary	5,806
Public Preschool	13,361
Title VI-B	76,811
Title II-D	732
School Improvement A	17,100
Title I	151,261
Drug Free Schools	1,209
Handicapped Preschool	4,925
Title II-A	12,444
Title VI-B Rural	21,660
Miscellaneous	27,614
Total	<u>\$354,091</u>

Note 9 - Jointly Governed Organizations

A. Gallia-Jackson-Vinton Joint Vocational School District

The Gallia-Jackson-Vinton Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the various City and County Boards within Gallia, Jackson, and Vinton Counties. The Board possesses its own budgeting and taxing authority. During fiscal year 2010, the School District paid \$20,377 to the Gallia-Jackson-Vinton Joint Vocational School District. To obtain financial information write to the Gallia-Jackson-Vinton Joint Vocational School District, Donalyn Smith who serves as Treasurer, P.O. Box 157, Rio Grande, Ohio, 45674.

B. Southeastern Ohio Voluntary Education Cooperative

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 28 participants consisting of school districts in nine southeastern Ohio counties. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2010, the School District paid \$33,023 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 school districts and other educational institutions in the 32-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 32 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 9 - Jointly Governed Organizations (Continued)

C. Coalition of Rural and Appalachian Schools

The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2010. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 10 - Insurance Purchasing Pool

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Schools of Ohio Risk Sharing Authority, Inc.

The School District participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), an insurance purchasing pool. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to School District property and persons which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include, comprehensive general liability, automobile liability, certain property insurance and educator's errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one member on the board at any one time. Each member school district's control is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 8050 N. High Street, Suite 160, Columbus, Ohio 43235-6483.

Note 11 - Interfund Balances

Interfund balances at June 30, 2010, arise from the provision of cash flow resources from the General Fund until the receipt of grant monies or other program revenues by the Special Revenue Funds, or the receipts of property tax revenue in the Bond Retirement Debt Service Fund.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 11 - Interfund Balances (Continued)

	Interfund Receivables	Interfund Payables
General Fund	<u>\$166,644</u>	<u>\$0</u>
Other Governmental Funds:		
Bond Retirement	0	6,395
Food Service	0	53,500
Uniform School Supply	0	2,877
Athletics	0	15,120
Public Preschool	0	1,271
Title VI-B Idea	0	45,093
Stabilization	0	760
School Improvement A	0	17,100
Title I	0	12,678
Handicapped Preschool	0	1,939
Miscellaneous Federal Grants	<u>0</u>	<u>9,911</u>
Total Other Governmental Funds	<u>0</u>	<u>166,644</u>
Total All Funds	<u><u>\$166,644</u></u>	<u><u>\$166,644</u></u>

Note 12 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

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

Note 13 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2010, the School District participated with other school districts in Ohio in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool (Note 10). Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles it selects. The School District pays its annual premiums to SORSA. The types and amounts of coverage provided are as follows:

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 13 - Risk Management (Continued)

A. Property and Liability (Continued)

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$51,459,906
General Liability:		
Each Occurrence	0	4,000,000
Aggregate Limit	0	6,000,000
Products - Completed Operations Aggregate Limit	0	4,000,000
Personal and Advertising Injury Limit - Each Offense	0	4,000,000
Employers' Liability:		
Each Occurrence	0	2,000,000
Disease - Each Employee	0	2,000,000
Disease - Policy Limit	0	2,000,000
Employee Benefits Liability:		
Each Occurrence	0	4,000,000
Aggregate Limit	0	6,000,000
Hazardous Substances	1,000	250,000
CFC Refrigeration	1,000	250,000
Spoilage	1,000	250,000
Vehicles:		
Bodily Injury:		
Per Person	0	4,000,000
Per Accident	0	4,000,000
Property Damage	0	4,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2009.

B. Workers' Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 14 - Capital Assets

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

	<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/10</u>
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$153,935	\$35,950	\$0	\$189,885
Construction in Progress	<u>905,619</u>	<u>3,699,304</u>	<u>(78,800)</u>	<u>4,526,123</u>
Total Non-Depreciable Capital Assets	<u>1,059,554</u>	<u>3,735,254</u>	<u>(78,800)</u>	<u>4,716,008</u>
Depreciable Capital Assets:				
Land Improvements	132,250	78,800	0	211,050
Buildings and Improvements	35,172,973	0	0	35,172,973
Furniture, Fixtures, and Equipment	3,489,386	99,419	(246,321)	3,342,484
Vehicles	1,516,618	0	0	1,516,618
Textbooks	<u>886,270</u>	<u>187,022</u>	<u>0</u>	<u>1,073,292</u>
Total Depreciable Capital Assets	<u>41,197,497</u>	<u>365,241</u>	<u>(246,321)</u>	<u>41,316,417</u>
Less Accumulated Depreciation:				
Land Improvements	(94,929)	(8,908)	0	(103,837)
Buildings and Improvements	(5,071,329)	(627,757)	0	(5,699,086)
Furniture, Fixtures, and Equipment	(2,014,104)	(259,546)	210,545	(2,063,105)
Vehicles	(932,646)	(103,176)	0	(1,035,822)
Textbooks	<u>(472,893)</u>	<u>(101,483)</u>	<u>0</u>	<u>(574,376)</u>
Total Accumulated Depreciation	<u>(8,585,901)</u>	<u>(1,100,870) *</u>	<u>210,545</u>	<u>(9,476,226)</u>
Total Capital Assets being Depreciated, Net	<u>32,611,596</u>	<u>(735,629)</u>	<u>(35,776)</u>	<u>31,840,191</u>
Capital Assets, Net	<u><u>\$33,671,150</u></u>	<u><u>\$2,999,625</u></u>	<u><u>(\$114,576)</u></u>	<u><u>\$36,556,199</u></u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$338,755
Special	138,784
Vocational	8,203
Support Services:	
Pupils	48,933
Instructional Staff	122,473
Administration	77,594
Fiscal	12,257
Operation and Maintenance of Plant	54,889
Pupil Transportation	181,139
Central	4,054
Food Service Operations	102,035
Extracurricular Activities	<u>11,754</u>
Total Depreciation Expense	<u><u>\$1,100,870</u></u>

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 15 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$307,527, \$162,346, and \$162,533, respectively; 44.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The School 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 43215-3371, 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 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.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 15 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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 the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$892,133, \$895,391, and \$819,036, respectively; 82.65 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 \$22,267 made by the School District and \$15,905 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Retirement System. As of June 30, 2010, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Note 16 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and obligations to contribute are established by the System based on authority granted by State statute. The financial report of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 E. Broad St., Suite 100, Columbus, Ohio 43215-3746.

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 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 16 - Postemployment Benefits (Continued)

A. School Employees Retirement System (Continued)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$34,831, \$100,971, and \$111,481, respectively; 100 percent has been contributed for fiscal years 2010, 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 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$16,258, \$14,271, and \$10,760, respectively; 37.63 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost-sharing, multiple employer defined benefit Health 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 the 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 School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$68,626, \$68,876, and \$63,003, respectively; 82.65 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 17- Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to sick leave accrual. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 59.5 days, and at 30 percent for classified employees up to a maximum of 60 days.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 17- Employee Benefits (Continued)

B. Insurance Benefits

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

Health insurance is provided through United Healthcare. Monthly premiums for this coverage are \$1,737.67 for family coverage and \$579.22 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$61.09 for family coverage and \$24.50 for single coverage. The School District pays 99% of both family and single coverage premiums.

Note 18 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2010 were as follows:

	Outstanding 6/30/09	Additions	Deductions	Outstanding 6/30/10	Due Within One Year
Governmental Activities:					
1999 3.30% - 5.85% School Construction General Obligation Bonds	\$2,635,000	\$0	\$135,000	\$2,500,000	\$145,000
Sick Leave Benefits	740,441	141,240	196,721	684,960	87,957
Total Governmental Activities Long-Term Liabilities	<u>\$3,375,441</u>	<u>\$141,240</u>	<u>\$331,721</u>	<u>\$3,184,960</u>	<u>\$232,957</u>

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

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2010, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$145,000	\$129,968	\$274,968
2012	150,000	122,248	272,248
2013	165,000	113,150	278,150
2014	175,000	103,290	278,290
2015	185,000	92,850	277,850
2016 - 2020	1,130,000	289,278	1,419,278
2021 - 2022	550,000	28,000	578,000
	<u>\$2,500,000</u>	<u>\$878,784</u>	<u>\$3,378,784</u>

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 18 - Long-Term Obligations (Continued)

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; the Food Service, Public Preschool, Title VI-B Idea, State Stabilization, Title I, Handicapped Preschool, and the Title II-A Special Revenue Funds.

The School District's overall legal debt margin was \$9,101,066, with an unvoted debt margin of \$101,123 at June 30, 2010.

Note 19 - Set-Aside Calculations

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of as of June 30, 2009	(\$168,042)	\$0	\$56,688
Current Year Set-Aside Requirement	256,451	256,451	0
Current Year Offsets	0	(112,978)	0
Qualifying Expenditures	<u>(259,594)</u>	<u>(3,699,304)</u>	<u>0</u>
Totals	<u>(\$171,185)</u>	<u>(\$3,555,831)</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$171,185)</u>	<u>\$0</u>	<u>\$56,688</u>
Set-Aside Reserve Balance as of June 30, 2010	<u>\$0</u>	<u>\$0</u>	<u>\$56,688</u>

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

Note 20 - Contractual Commitments

As of June 30, 2010, the School District's contractual purchase commitments for the reconstruction of the School District's Middle School and High School and a new Bus Garage are as follows:

<u>Project</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 06/30/10</u>
Middle and High Schools Reconstruction	Classroom Facilities Capital Projects Fund	\$4,537,105	\$4,365,603	\$171,502
Bus Garage	Permanent Improvements Capital Projects Fund	16,000	9,440	6,560
Total Contractual Commitments		<u>\$4,553,105</u>	<u>\$4,375,043</u>	<u>\$178,062</u>

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**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2009/2010	10.555	\$ 49,601	\$ 49,601
Cash Assistance:				
School Breakfast Program	2009/2010	10.553	131,860	131,860
National School Lunch Program	2009/2010	10.555	<u>347,860</u>	<u>347,860</u>
Cash Assistance Subtotal			<u>479,720</u>	<u>479,720</u>
Total Child Nutrition Cluster			<u>529,321</u>	<u>529,321</u>
Total U.S. Department of Agriculture			529,321	529,321
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1 Cluster:				
Title 1 Grants to Local Educational Agencies	2009	84.010	51,051	75,973
	2010		530,178	542,855
School Improvement - Subgrant A	2010		<u>31,975</u>	<u>49,075</u>
Total Title 1 Grants to Local Educational Agencies			613,204	667,903
ARRA - Title 1 Grants to Local Educational Agencies	2010	84.389	<u>147,897</u>	<u>134,731</u>
Total Title 1 Cluster			761,101	802,634
Special Education Cluster:				
Special Education - Grants to States	2009	84.027	43,695	40,290
	2010		<u>397,147</u>	<u>405,800</u>
Total Special Education - Grants to States			440,842	446,090
ARRA - Special Education - Grants to States	2010	84.391	334,413	333,669
Special Education - Preschool Grants	2009	84.173	2,168	2,422
	2010		<u>11,348</u>	<u>11,165</u>
Total Special Education - Preschool Grants			13,516	13,587
ARRA - Special Education - Preschool Grants	2010	84.392	<u>7,608</u>	<u>9,546</u>
Total Special Education Cluster			796,379	802,892
Safe and Drug-Free Schools and Communities - State Grants	2009	84.186	3,502	4,002
	2010		<u>5,500</u>	<u>5,500</u>
Total Safe and Drug-Free Schools and Communities - State Grants			9,002	9,502
Javitis Gifted Grant	2010	84.206	100	100
Education Technology State Grants	2010	84.318	5,013	5,774
Rural Education	2010	84.358	35,259	45,170
Improving Teacher Quality State Grants	2009	84.367	19,533	19,533
	2010		<u>135,402</u>	<u>134,328</u>
Total Improving Teacher Quality State Grants			154,935	153,861
School Improvement Grants	2010	84.377	106,384	117,670
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394	<u>641,208</u>	<u>629,342</u>
Total U.S. Department of Education			<u>2,509,381</u>	<u>2,566,945</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 3,038,702</u>	<u>\$ 3,096,266</u>

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

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C - FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson 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 22, 2011. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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.

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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 22, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 22, 2011



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Wellston City School District, Jackson County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the 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 and Questioned Costs 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 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying Schedule of Findings and Questioned Costs lists this instance as Finding 2010-001.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated March 22, 2011.

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



Dave Yost
Auditor of State

March 22, 2011

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: CFDA's # 10.553 and 10.555. Title I Grants to Local Educational Agencies Cluster: CFDA # 84.010 and 84.389 Special Education Grants to States Cluster: CFDA's # 84.027, 84.173, 84.391 and 84.392 ARRA – State Fiscal Stabilization Fund – Education Grants to States: CFDA # 84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2010-01
CFDA Title and Number	ARRA - Special Education Grants to States: CFDA # 84.391
Federal Award Number / Year	2009 – 2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/ Significant Deficiency/ Questioned Costs – Allowable Costs/Cost Principles

2 C.F.R. Part 225 (A-87) Appendix B, Part 8g states that:

- (1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer employee agreement, or (c) established written policy.
- (2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
- (3) Abnormal or mass severance pay will be considered on a case by case basis and is allowable only if approved by the cognizant Federal agency.

OMB Circular A-133 Section .510(a)(3) states that questioned costs shall be issued where the amount in question is greater than \$10,000 for a type of compliance requirement for a major program.

In April 2010, Special Needs Instructor David Tribby retired from service at the School District. The School District paid his severance of \$18,711 directly from Special Education Grant to States- ARRA Funding (Fund 516-932N). Charging severance payments as a direct expense resulted in questioned costs of \$18,711 in the Special Education Grant to States - ARRA.

We recommend the School District not pay severance from Federal funds, unless using an approved Indirect Cost Allocation plan.

Officials' Response: Mr. Tribby was employed as a special education teacher in our District for over thirty years. He was always paid from special education funding. When he retired, his severance was paid from the same funding source that his salary had been paid from. Since the District does not currently have an Indirect Cost Allocation plan, we have put measures in place to pay all severance benefits from the District's General Fund.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-01	Since the District does not currently have an Indirect Cost Allocation plan, we have put measures in place to pay all severance benefits from the District's General Fund.	July 1, 2011	Tami Downard, Treasurer

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WELLSTON CITY SCHOOL DISTRICT

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 31, 2011