



**Auditor of State
Betty Montgomery**

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Gallipolis City School District
Gallia County
61 State Street
Gallipolis, Ohio 45631

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Gallipolis City School District, Gallia County, Ohio (the District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Gallipolis City School District, Gallia County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type 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 4, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 4, 2003

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GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents.	\$ 2,377,549	\$ 574,365	\$ -	\$ 659,280
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	4,339,840	-	68,565	-
Accounts.	568	1,634	-	-
Interfund loan receivable	4,330	-	-	-
Due from other governments	33,116	213,307	-	-
Materials and supplies inventory	70,200	-	-	-
Prepayments	20,641	287	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	279,689	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
OTHER DEBITS:				
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 7,125,933</u>	<u>\$ 789,593</u>	<u>\$ 68,565</u>	<u>\$ 659,280</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 177,424	\$ 24,748	\$ -	\$ -
Accrued wages and benefits.	1,272,823	279,826	-	-
Interfund loans payable	-	4,330	-	-
Compensated absences payable.	38,611	-	-	-
Pension obligation payable	193,245	37,921	-	-
Due to other governments.	37,161	7,344	-	-
Deferred revenue	4,339,840	21,981	68,565	12,110
Due to students	-	-	-	-
Energy conservation notes payable	-	-	-	-
Total liabilities.	<u>6,059,104</u>	<u>376,150</u>	<u>68,565</u>	<u>12,110</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets.	-	-	-	-
Retained earnings: unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	506,922	75,299	-	-
Reserved for materials and supplies inventory.	70,200	-	-	-
Reserved for prepayments	20,641	287	-	-
Reserved for BWC refunds	74,921	-	-	-
Reserved for instructional materials.	148,392	-	-	-
Reserved for capital maintenance	56,376	-	-	-
Designated for budget stabilization	12,630	-	-	-
Unreserved-undesignated	176,747	337,857	-	647,170
Total equity and other credits	<u>1,066,829</u>	<u>413,443</u>	<u>-</u>	<u>647,170</u>
Total liabilities, equity and other credits.	<u>\$ 7,125,933</u>	<u>\$ 789,593</u>	<u>\$ 68,565</u>	<u>\$ 659,280</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$ 206,493	\$ 53,480	\$ -	\$ -	\$ 3,871,167
-	-	-	-	4,408,405
91	-	-	-	2,293
-	-	-	-	4,330
-	-	-	-	246,423
-	-	-	-	70,200
1,142	-	-	-	22,070
-	-	-	-	279,689
54,010	-	9,822,370	-	9,876,380
-	-	-	1,645,444	1,645,444
<u>\$ 261,736</u>	<u>\$ 53,480</u>	<u>\$ 9,822,370</u>	<u>\$ 1,645,444</u>	<u>\$ 20,426,401</u>
\$ 17,803	\$ -	\$ -	\$ -	\$ 219,975
42,670	-	-	-	1,595,319
-	-	-	-	4,330
26,451	-	-	1,353,044	1,418,106
19,854	-	-	68,400	319,420
1,099	-	-	-	45,604
-	-	-	-	4,442,496
-	53,480	-	-	53,480
-	-	-	224,000	224,000
<u>107,877</u>	<u>53,480</u>	<u>-</u>	<u>1,645,444</u>	<u>8,322,730</u>
-	-	9,822,370	-	9,822,370
153,859	-	-	-	153,859
-	-	-	-	582,221
-	-	-	-	70,200
-	-	-	-	20,928
-	-	-	-	74,921
-	-	-	-	148,392
-	-	-	-	56,376
-	-	-	-	12,630
-	-	-	-	1,161,774
<u>153,859</u>	<u>-</u>	<u>9,822,370</u>	<u>-</u>	<u>12,103,671</u>
<u>\$ 261,736</u>	<u>\$ 53,480</u>	<u>\$ 9,822,370</u>	<u>\$ 1,645,444</u>	<u>\$ 20,426,401</u>

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GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
From local sources:					
Taxes	\$ 3,839,860	\$ -	\$ 107,603	\$ -	\$ 3,947,463
Tuition	10,252	-	-	-	10,252
Earnings on investments	165,692	-	-	-	165,692
Extracurricular	-	201,762	-	-	201,762
Other local revenues	315,922	85,110	-	50	401,082
Intergovernmental - State	9,323,061	1,310,594	-	-	10,633,655
Intergovernmental - Federal	37,541	1,325,127	-	10,000	1,372,668
Total revenue	13,692,328	2,922,593	107,603	10,050	16,732,574
Expenditures:					
Current:					
Instruction:					
Regular	6,206,080	1,519,227	-	20,782	7,746,089
Special	1,531,899	535,730	-	-	2,067,629
Vocational	304,337	-	-	-	304,337
Support services:					
Pupil	719,260	14,246	-	-	733,506
Instructional staff	318,623	438,520	-	-	757,143
Board of Education	32,412	-	-	-	32,412
Administration	1,165,400	148,490	-	-	1,313,890
Fiscal	332,853	-	-	-	332,853
Operations and maintenance	1,290,299	24,643	-	-	1,314,942
Pupil transportation	1,156,476	37	-	-	1,156,513
Central	68,878	14,956	-	-	83,834
Extracurricular activities	252,585	167,480	-	-	420,065
Facilities acquisition and construction	88,148	-	-	-	88,148
Debt service:					
Principal retirement	-	-	95,800	-	95,800
Interest and fiscal charges	-	-	14,981	-	14,981
Total expenditures	13,467,250	2,863,329	110,781	20,782	16,462,142
Excess (deficiency) of revenues over (under) expenditures	225,078	59,264	(3,178)	(10,732)	270,432
Other financing sources:					
Operating transfers in	-	-	-	80,000	80,000
Operating transfers out	(80,000)	-	-	-	(80,000)
Proceeds from sale of fixed assets	7,927	-	-	-	7,927
Total other financing sources	(72,073)	-	-	80,000	7,927
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	153,005	59,264	(3,178)	69,268	278,359
Fund balances, July 1	921,248	354,179	3,178	577,902	1,856,507
Decrease in reserve for inventory	(7,424)	-	-	-	(7,424)
Fund balances, June 30	\$ 1,066,829	\$ 413,443	\$ -	\$ 647,170	\$ 2,127,442

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 3,868,485	\$ 3,928,208	\$ 59,723	\$ -	\$ -	\$ -
Tuition	9,918	11,330	1,412	-	-	-
Earnings on investments	128,932	165,692	36,760	-	-	-
Extracurricular	-	-	-	201,363	201,761	398
Other local revenues	198,357	198,114	(243)	83,955	83,476	(479)
Intergovernmental - State	9,521,114	9,323,061	(198,053)	1,256,512	1,255,632	(880)
Intergovernmental - Federal	59,507	62,565	3,058	1,326,916	1,188,764	(138,152)
Total revenues	<u>13,786,313</u>	<u>13,688,970</u>	<u>(97,343)</u>	<u>2,868,746</u>	<u>2,729,633</u>	<u>(139,113)</u>
Expenditures:						
Current:						
Instruction:						
Regular	6,505,545	6,420,460	85,085	1,712,424	1,504,416	208,008
Special	1,520,099	1,584,331	(64,232)	667,507	532,266	135,241
Vocational	295,406	317,438	(22,032)	-	-	-
Support services:						
Pupil	717,901	755,591	(37,690)	15,819	14,639	1,180
Instructional staff	303,026	334,885	(31,859)	618,309	457,368	160,941
Board of Education	41,225	43,206	(1,981)	-	-	-
Administration	1,253,459	1,240,026	13,433	183,506	141,978	41,528
Fiscal	342,591	347,786	(5,195)	-	-	-
Operations and maintenance	1,412,155	1,321,871	90,284	32,317	23,983	8,334
Pupil transportation	1,447,852	1,198,992	248,860	4,970	37	4,933
Central	142,104	77,718	64,386	14,820	16,623	(1,803)
Extracurricular activities	289,686	265,021	24,665	202,710	178,794	23,916
Facilities acquisition and construction	120,800	92,909	27,891	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>14,391,849</u>	<u>14,000,234</u>	<u>391,615</u>	<u>3,452,382</u>	<u>2,870,104</u>	<u>582,278</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(605,536)</u>	<u>(311,264)</u>	<u>294,272</u>	<u>(583,636)</u>	<u>(140,471)</u>	<u>443,165</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	(80,000)	(80,000)	-	-	-
Operating advances in	-	-	-	-	4,330	4,330
Operating advances out	-	(4,330)	(4,330)	-	-	-
Proceeds from sale of fixed assets	-	7,927	7,927	-	-	-
Refund of prior year receipts	-	-	-	-	(3)	(3)
Refund of prior year expenditure	-	89,421	89,421	-	80	80
Total other financing sources (uses)	<u>-</u>	<u>13,018</u>	<u>13,018</u>	<u>-</u>	<u>4,407</u>	<u>4,407</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(605,536)</u>	<u>(298,246)</u>	<u>307,290</u>	<u>(583,636)</u>	<u>(136,064)</u>	<u>447,572</u>
Fund balances, July 1	1,587,644	1,587,644	-	535,127	535,127	-
Prior year encumbrances appropriated	<u>691,851</u>	<u>691,851</u>	<u>-</u>	<u>75,257</u>	<u>75,257</u>	<u>-</u>
Fund balances, June 30	<u>\$ 1,673,959</u>	<u>\$ 1,981,249</u>	<u>\$ 307,290</u>	<u>\$ 26,748</u>	<u>\$ 474,320</u>	<u>\$ 447,572</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 110,131	\$ 110,131	\$ -	\$ -	\$ -	\$ -	\$ 3,978,616	\$ 4,038,339	\$ 59,723
-	-	-	-	-	-	9,918	11,330	1,412
-	-	-	-	-	-	128,932	165,692	36,760
-	-	-	-	-	-	201,363	201,761	398
-	-	-	50	50	-	282,362	281,640	(722)
-	-	-	12,110	12,110	-	10,789,736	10,590,803	(198,933)
-	-	-	-	-	-	1,386,423	1,251,329	(135,094)
<u>110,131</u>	<u>110,131</u>	<u>-</u>	<u>12,160</u>	<u>12,160</u>	<u>-</u>	<u>16,777,350</u>	<u>16,540,894</u>	<u>(236,456)</u>
-	-	-	20,734	20,782	(48)	8,238,703	7,945,658	293,045
-	-	-	-	-	-	2,187,606	2,116,597	71,009
-	-	-	-	-	-	295,406	317,438	(22,032)
-	-	-	-	-	-	733,720	770,230	(36,510)
-	-	-	-	-	-	921,335	792,253	129,082
-	-	-	-	-	-	41,225	43,206	(1,981)
-	-	-	-	-	-	1,436,965	1,382,004	54,961
-	-	-	-	-	-	342,591	347,786	(5,195)
-	-	-	-	-	-	1,444,472	1,345,854	98,618
-	-	-	-	-	-	1,452,822	1,199,029	253,793
-	-	-	-	-	-	156,924	94,341	62,583
-	-	-	-	-	-	492,396	443,815	48,581
-	-	-	200,000	-	200,000	320,800	92,909	227,891
95,800	95,800	-	-	-	-	95,800	95,800	-
14,981	14,981	-	-	-	-	14,981	14,981	-
<u>110,781</u>	<u>110,781</u>	<u>-</u>	<u>220,734</u>	<u>20,782</u>	<u>199,952</u>	<u>18,175,746</u>	<u>17,001,901</u>	<u>1,173,845</u>
(650)	(650)	-	(208,574)	(8,622)	199,952	(1,398,396)	(461,007)	937,389
-	-	-	80,000	80,000	-	80,000	80,000	-
-	-	-	-	-	-	-	(80,000)	(80,000)
-	-	-	-	-	-	-	4,330	4,330
-	-	-	-	-	-	-	(4,330)	(4,330)
-	-	-	-	-	-	-	7,927	7,927
-	-	-	-	-	-	-	(3)	(3)
-	-	-	-	-	-	-	89,501	89,501
-	-	-	80,000	80,000	-	80,000	97,425	17,425
(650)	(650)	-	(128,574)	71,378	199,952	(1,318,396)	(363,582)	954,814
650	650	-	587,854	587,854	-	2,711,275	2,711,275	-
-	-	-	48	48	-	767,156	767,156	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,328</u>	<u>\$ 659,280</u>	<u>\$ 199,952</u>	<u>\$ 2,160,035</u>	<u>\$ 3,114,849</u>	<u>\$ 954,814</u>

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating revenues:	
Tuition and fees	\$ 40,530
Sales/charges for services	222,466
Other operating revenues.	<u>3,273</u>
 Total operating revenues	 <u>266,269</u>
Operating expenses:	
Personal services	304,873
Contract services	13,315
Materials and supplies	281,077
Depreciation	7,662
Other	<u>1,510</u>
 Total operating expenses	 <u>608,437</u>
Operating loss	<u>(342,168)</u>
Nonoperating revenues:	
Operating grants	262,977
Federal commodities	<u>29,170</u>
 Total nonoperating revenues.	 <u>292,147</u>
 Net loss.	 <u>(50,021)</u>
Retained earnings, July 1	<u>203,880</u>
Retained earnings, June 30	<u>\$ 153,859</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

		<u>Proprietary Fund Type</u>
		<u>Enterprise</u>
Cash flows from operating activities:		
Cash received from tuition and fees	\$	40,530
Cash received from sales/service charges		222,466
Cash received from other operations		3,260
Cash payments for personal services		(296,647)
Cash payments for contract services		(13,599)
Cash payments for materials and supplies		(245,024)
Cash payments for other expenses		<u>(1,510)</u>
Net cash used in operating activities		<u>(290,524)</u>
Cash flows from noncapital financing activities:		
Cash received from operating grants		<u>262,977</u>
Net cash provided by noncapital financing activities		<u>262,977</u>
Net decrease in cash and cash equivalents		(27,547)
Cash and cash equivalents at beginning of year		<u>234,040</u>
Cash and cash equivalents at end of year	\$	<u><u>206,493</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(342,168)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation		7,662
Federal donated commodities		29,170
Changes in assets and liabilities:		
Decrease in materials and supplies inventory		8,119
Increase in accounts receivable		(13)
Decrease in prepayments		(1,095)
Increase in accounts payable		4,757
Increase in accrued wages and benefits		5,631
Decrease in compensated absences payable		(4,388)
Increase in due to other governments		1,099
Increase in pension obligation payable		5,884
Decrease in deferred revenue		<u>(5,182)</u>
Net cash used in operating activities	\$	<u><u>(290,524)</u></u>
Non-cash, non-capital financing activities:		
The Food Service enterprise fund received \$29,170 in federally donated commodities during fiscal year 2002.		

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 218th largest by enrollment among the 705 public and community districts in the State. It currently operates 3 elementary schools and 1 comprehensive high school. The District employs 78 non-certified and 161 certified (including 24 administrative) full-time and part-time employees to provide services to approximately 2,386 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. The Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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

JOINTLY GOVERNED ORGANIZATION

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. This includes agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budgetary basis with note disclosure, if applicable, regarding items, which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance (and recognized as revenue), but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense, with a like amount reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations can not exceed estimated resources, as certified. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Gallia County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for enterprise funds are disclosed in Note 10.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) on the combined balance sheet.

During 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 totaled \$165,692, which included \$62,742 assigned from other funds of the District.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

F. Materials and Supplies Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at fiscal year-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

G. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. 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 capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and minor equipment	5 - 20

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

J. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, instructional materials, capital maintenance and BWC refunds not yet spent on allowable expenditures. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

Designated fund balance represents planned actions for monies set-a-side by the District for budget stabilization.

L. Interfund Transactions

Transactions between funds during the normal course of operations may occur. These may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund, which provides a service records revenue, and the fund, which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside for instructional materials, capital maintenance and BWC refunds. These reserves are required by state statute. Fund balance reserves have also been established. See Note 16 for statutory reserves.

N. Estimates

The preparation of financial statements in conformity with GAAP 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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2002, included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Summer Intervention	\$21,037
Miscellaneous State Grants	5,152
Title VI	1,905

These funds complied with Ohio law, which does not allow a cash deficit at year-end.

These GAAP deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

B. Agency Fund

The following is an accrual for the agency fund, which in another fund type, would be recognized in the combined balance sheet:

<u>LIABILITIES</u>	
Accounts payable	\$2,198

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$4,150,856 and the bank balance was \$4,318,297 (both amounts include payroll clearance accounts). Of the bank balance:

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

1. \$100,000 was covered by federal depository insurance.
2. \$4,218,297 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District had no investments at June 30, 2002.

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
General Fund	\$4,330	\$ -
<u>Special Revenue Fund</u>		
Miscellaneous State Grants	-	4,330
Total	\$4,330	\$4,330

- B. The following is a reconciliation of the District's operating transfers for 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$80,000
<u>Capital Projects Fund</u>		
Permanent Improvements	80,000	-
Total	\$80,000	\$80,000

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue, which would otherwise have been collected.

The assessed value upon which the 2002 taxes were collected are as follows:

	<u>2001 Second-Half Collections</u>		<u>2002 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$161,531,800	82.84	\$169,679,770	85.53
Public Utility Personal	11,616,670	5.96	-	-
Tangible Personal Property	<u>21,842,654</u>	<u>11.20</u>	<u>28,704,306</u>	<u>14.47</u>
	<u>\$194,991,124</u>	<u>100.00</u>	<u>\$198,384,076</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$27.20		\$31.00	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The Gallia County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. There were no available tax advances at June 30, 2002.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, interfund loans, and intergovernmental grants (to the extent such grants relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$4,339,840
Due from other governments	33,116
Interfund loan receivable	4,330
 <u>Special Revenue Funds</u>	
Due from other governments	213,307
Accounts	1,634
 <u>Debt Service Fund</u>	
Taxes - current and delinquent	68,565

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2002</u>
Land and buildings	\$4,171,556	\$ 69,791	\$ -	\$4,241,347
Furniture/equipment	3,437,714	252,921	(92,438)	3,598,197
Vehicles	<u>1,749,956</u>	<u>272,328</u>	<u>(39,458)</u>	<u>1,982,826</u>
 Total	 <u>\$9,359,226</u>	 <u>\$595,040</u>	 <u>\$(131,896)</u>	 <u>\$9,822,370</u>

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ 234,550
Less: accumulated depreciation	<u>(180,540)</u>
 Net fixed assets	 <u>\$ 54,010</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 9 - LONG-TERM OBLIGATIONS

- A. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the general long-term debt obligations group. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the District's notes outstanding as of June 30, 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Notes <u>Outstanding 07/01/01</u>	Notes <u>Retired in Fiscal 2002</u>	Notes <u>Outstanding 06/30/02</u>
Energy conservation note	6.25%	12/05/91	12/01/01	\$ 39,800	\$(39,800)	\$ -
Energy conservation note	5.38%	5/01/97	5/01/06	<u>280,000</u>	<u>(56,000)</u>	<u>224,000</u>
Total				<u>\$319,800</u>	<u>\$ (95,800)</u>	<u>\$224,000</u>

- B. The following is a summary of the District's future annual debt service requirements to maturity for energy conservation notes:

<u>Year Ending June 30</u>	<u>Principal on Energy Conservation Notes</u>	<u>Interest on Energy Conservation Notes</u>	<u>Total</u>
2003	\$ 56,000	\$11,298	\$ 67,298
2004	56,000	8,285	64,285
2005	56,000	5,272	61,272
2006	<u>56,000</u>	<u>2,260</u>	<u>58,260</u>
Total	<u>\$224,000</u>	<u>\$27,115</u>	<u>\$251,115</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation payable will be paid from the fund from which the employee is paid.

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2002</u>
Compensated absences	\$1,449,709	\$26,329	\$(122,994)	\$1,353,044
Pension obligation payable	66,172	68,400	(66,172)	68,400
Energy conservation notes	<u>319,800</u>	<u>-</u>	<u>(95,800)</u>	<u>224,000</u>
Total	<u>\$1,835,681</u>	<u>\$94,729</u>	<u>\$(284,966)</u>	<u>\$1,645,444</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school district shall never exceed 9% of the total assessed valuation of the district. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the district. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District.

The effects of these debt limitations for the District at June 30, 2002, are a voted debt margin of \$17,854,567, an unvoted debt margin of \$198,384, and an unvoted energy conservation debt margin of \$1,561,457.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 10 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food services, uniform school supplies, and special enterprises. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Special Enterprises</u>	<u>Total</u>
Operating revenue	\$ 224,434	\$40,685	\$ 1,150	\$ 266,269
Depreciation	7,662	-	-	7,662
Operating income/(loss)	(355,379)	17,710	(4,499)	(342,168)
Non-operating revenues:				
Donated federal commodities	29,170	-	-	29,170
Operating grants	262,977	-	-	262,977
Net income/(loss)	(63,232)	17,710	(4,499)	(50,021)
Net working capital	56,736	25,054	18,059	99,849
Total assets 202,587	41,090	18,059	261,736	
Total liabilities	91,841	16,036	-	107,877
Total fund equity	110,746	25,054	18,059	153,859
Encumbrances at 6/30/02	9,460	37,057	-	46,517

NOTE 11 - RISK MANAGEMENT

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

During fiscal year 2002, the District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$2 million per occurrence/\$5 million annual aggregate limitation.

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 11 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

OSBA WORKERS' COMPENSATION GROUP RATING

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$233,587, \$237,264, and \$208,702, respectively; 56.08% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$102,600, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14% for 2002; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,139,076, \$1,075,537, and \$1,010,170, respectively; 83.25% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$190,828, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$366,132 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$153,893 during the 2002 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the Governmental funds are as follows:

	<u>Governmental Fund Types</u>			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>
Budget Basis	\$(298,246)	\$(136,064)	\$ (650)	\$71,378
Net adjustment for revenue accruals	3,358	192,960	(2,528)	(2,110)
Net adjustment for expenditure accruals	(143,005)	(93,270)	-	-
Net adjustment for other financing uses	(85,091)	(4,407)	-	-
Adjustment for encumbrances	<u>675,989</u>	<u>100,045</u>	<u>-</u>	<u>-</u>
GAAP basis	<u>\$ 153,005</u>	<u>\$ 59,264</u>	<u>\$(3,178)</u>	<u>\$69,268</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 15 - CONTINGENCIES - (Continued)

B. Litigation

The District is not party to any legal proceeding.

C. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>	<u>Budget Stabilization Designated</u>
Set-aside cash balance as of 7/1/01	\$ 185,523	\$ 76,457	\$74,921	\$12,630
Current year set-aside requirement	265,095	265,095	-	-
Qualifying disbursements	<u>(302,226)</u>	<u>(285,176)</u>	<u>-</u>	<u>-</u>
Total, June 30, 2002	<u>\$ 148,392</u>	<u>\$ 56,376</u>	<u>\$74,921</u>	<u>\$12,630</u>
Cash balance carried forward to FY 2003	<u>\$ 148,392</u>	<u>\$ 56,376</u>	<u>\$74,921</u>	<u>\$12,630</u>

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 16 - STATUTORY RESERVES - (Continued)

A schedule of the restricted/designated assets at June 30, 2002 follows:

Amount restricted for instructional materials	\$148,392
Amount restricted for capital maintenance	56,376
Amount restricted for BWC refunds	74,921
Amount designated for budget stabilization	<u>12,630</u>
 Total restricted/designated assets	 <u>\$292,319</u>

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$	\$32,240	\$	\$33,021
National School Breakfast Program	05PU	10.553	51,556		51,556	
National School Lunch Program	LLP4	10.555	191,645		191,645	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>243,201</u>	<u>32,240</u>	<u>243,201</u>	<u>33,021</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Education Agencies (ESEA Title I)	C1S1	84.010	419,201		520,888	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B) Handicapped	6BEC/6BSF	84.027	215,299		175,115	
Special Education Grants to States (IDEA Part B) Preschool	PGS1	84.173	14,805		11,545	
Total Special Education Cluster			<u>230,104</u>		<u>186,660</u>	
Safe and Drug Free Schools	DRS1	84.186	9,658		9,848	
Safe and Drug Free Schools - PRAISE	DRS1	84.186A	40,000		38,849	
Total Safe and Drug Free Schools			<u>49,658</u>		<u>48,697</u>	
Continuous Improvement Plan	G2S3/G2S9	84.276	14,369		6,390	
Eisenhower Professional Development Education Grant	MSS1	84.281	17,507		13,496	
Innovative Educational Program Strategies	C2S1	84.298	17,587		20,801	
Classroom Reduction Funds (Title VIR)	CRS1	84.340	106,292		104,918	
<i>Passed Through Ohio School Net Commission:</i>						
Tech Literacy Challenge Grant	TF51/TF52/TF53	84.318	250,000		243,151	
Total U.S. Department of Education			<u>1,104,718</u>		<u>1,145,001</u>	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Funding System	N/A	93.778	62,565		62,565	
Total U.S. Department of Health and Human Services			<u>62,565</u>		<u>62,565</u>	
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$1,410,484</u>	<u>\$32,240</u>	<u>\$1,450,767</u>	<u>\$33,021</u>

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had food commodities valued at \$4,401 in inventory.



**Auditor of State
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**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Gallipolis City School District
Gallia County
61 State Street
Gallipolis, Ohio 45631

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Gallipolis City School District, Gallia County, Ohio (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 4, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 4, 2003.

Gallipolis City School District
Gallia County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 4, 2003



**Auditor of State
Betty Montgomery**

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

Gallipolis City School District
Gallia County
61 State Street
Gallipolis, Ohio 45631

To the Board of Education:

Compliance

We have audited the compliance of the Gallipolis City School District, Gallia County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, we noted an instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 4, 2003.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

March 4, 2003

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

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

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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GALLIPOLIS CITY SCHOOL DISTRICT

GALLIA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2003**