



**Auditor of State
Betty Montgomery**

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Wellsville Local School District
Columbiana County
929 Center Street
Wellsville, Ohio 43968

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellsville Local School District, Columbiana County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Wellsville Local School District, Columbiana County, Ohio as of June 30, 2004, and the respective changes in financial position and the applicable budgetary comparison for the General Fund there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

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 15, 2005

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the Wellsville Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$1,201,656.

General revenues accounted for \$6,678,728, or 85 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,173,154 or 15 percent of total revenues of \$7,851,882.

The District's major funds included the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. The General Fund had \$6,120,921 in revenues and other financing sources and \$6,710,480 in expenditures. The General Fund's balance decreased \$589,559 from the prior fiscal year. The Bond Retirement Fund had \$171,024 in revenues and \$134,707 in expenditures. The Bond Retirement Fund's balance increased \$36,317 from the prior fiscal year. The Permanent Improvement Fund had \$148,654 in revenues and other financing sources and \$250,697 in expenditures. The Permanent Improvement Fund's balance decreased \$102,043 from the prior fiscal year.

The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund, the Bond Retirement Fund, and the Permanent Improvement Funds are the three major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**Table 1
Net Assets
Governmental Activities**

	2004
<u>Assets:</u>	
Current and Other Assets	\$2,347,353
Capital Assets, Net	8,702,035
Total Assets	11,049,388
 <u>Liabilities:</u>	
Current and Other Liabilities	2,197,236
Long-Term Liabilities	1,967,962
Total Liabilities	4,165,198
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	7,262,035
Restricted	1,060,551
Unrestricted	(1,438,396)
Total	\$6,884,190

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**Table 2
Change in Net Assets
Governmental Activities**

	2004
<u>Revenues:</u>	
<u>Program Revenues:</u>	
Charges for Services and Sales	\$223,509
Operating Grants, Contributions and Interest	928,020
Capital Grants and Contributions	21,625
Total Program Revenues	1,173,154
<u>General Revenues:</u>	
Property Taxes	1,226,268
Grants and Entitlements	5,246,478
Investment Earnings	9,368
Gifts and Donations	13,819
Miscellaneous	182,795
Total General Revenues	6,678,728
Total Revenues	\$7,851,882

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

<u>Expenses:</u>	
Instruction	5,307,637
Support Services:	
Pupils	335,098
Instructional Staff	503,393
Board of Education	6,179
Administration	854,501
Fiscal	224,243
Operation and Maintenance of Plant	953,753
Pupil Transportation	142,375
Non-Instructional	345,328
Extracurricular Activities	240,553
Capital Outlay	59,333
Interest and Fiscal Charges	81,145
Total Expenses	<u>9,053,538</u>
Change in Net Assets	<u>\$1,201,656</u>

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
Instruction	\$5,307,637	\$4,386,286
Support Services:		
Pupils	335,098	325,636
Instructional Staff	503,393	497,478
Board of Education	6,179	6,179
Administration	854,501	854,501
Fiscal	224,243	224,243
Operation and Maintenance of Plant	953,753	932,128
Pupil Transportation	142,375	142,375
Non-Instructional	345,328	231,607
Extracurricular Activities	240,553	139,473
Capital Outlay	59,333	59,333
Interest and Fiscal Charges	81,145	81,145
Total Expenses	<u>\$9,053,538</u>	<u>\$7,880,384</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 83 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. The remaining 13 percent are derived from tuition and fees, specific grants, and donations.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. Total governmental funds had revenues of \$7,886,535 and expenditures of \$8,632,832. The net negative change of \$814,488 in fund balance for the year indicates that the District is able to meet current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

There were no significant changes between the original and the final budget. Final expenditures were budgeted at \$6,441,517 while actual expenditures were \$6,497,768.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$8,702,035 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$1,440,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-two year period, with final maturity on December 1, 2020. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$21,450,517, with an un-voted debt margin of \$43,228.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Wellsville is a small rural community of 4,500 people in Eastern Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 19 percent of District revenue sources are from local funds, 79 percent from state funds and the remaining 2 percent is from federal funds. The total expenditure per pupil was calculated at \$8,212.69.

Future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Rebecca Jenkins, Treasurer, Wellsville Local School District, 929 Center Street, Wellsville, Ohio 43968.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,075,051
Materials and Supplies Inventory	878
Accounts Receivable	6,865
Intergovernmental Receivable	68,252
Prepaid Items	5,927
Taxes Receivable	1,109,495
Restricted Assets	
Equity in Pooled Cash and Cash Equivalents	80,885
Non-Depreciable Capital Assets	291,078
Depreciable Capital Assets, net	<u>8,410,957</u>
 Total Assets	 <u>11,049,388</u>
 LIABILITIES:	
Accounts Payable	58,813
Accrued Wages and Benefits	744,727
Intergovernmental Payable	213,587
Matured Compensated Absences Payable	129,849
Deferred Revenue	1,050,260
Long-Term Liabilities:	
Due Within One Year	55,000
Due in More Than One Year	<u>1,912,962</u>
 Total Liabilities	 <u>4,165,198</u>
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	7,262,035
Restricted for Debt Service	222,883
Restricted for Capital Outlay	550,777
Restricted for Other Purposes	286,891
Unrestricted	<u>(1,438,396)</u>
 Total Net Assets	 \$ <u><u>6,884,190</u></u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 4,179,465	\$ 17,014	\$ 491,295	\$	(3,671,156)
Special	871,382		413,042		(458,340)
Vocational	256,790				(256,790)
Support Services:					
Pupils	335,098		9,462		(325,636)
Instructional Staff	503,393		5,915		(497,478)
Board of Education	6,179				(6,179)
Administration	854,501				(854,501)
Fiscal	224,243				(224,243)
Operation and Maintenance of Plant	953,753			21,625	(932,128)
Pupil Transportation	142,375				(142,375)
Operation of Non-Instructional Services	345,328	105,415	8,306		(231,607)
Extracurricular Activities	240,553	101,080			(139,473)
Capital Outlay	59,333				(59,333)
Debt Service:					
Interest and Fiscal Charges	81,145				(81,145)
Totals	\$ 9,053,538	\$ 223,509	\$ 928,020	\$ 21,625	(7,880,384)
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes					905,676
Property Taxes Levied for Capital Outlay					139,545
Property Taxes Levied for Debt Service					160,305
Property Taxes Levied for Other Purposes					20,742
Grants and Entitlements not Restricted to Specific Programs					5,246,478
Gifts and Donations					13,819
Investment Earnings					9,368
Miscellaneous					182,795
Total General Revenues					6,678,728
Change in Net Assets					(1,201,656)
Net Assets Beginning of Year					8,085,846
Net Assets End of Year					\$ 6,884,190

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ (91,300)	\$ 214,982	\$ 376,978	\$ 574,391	\$ 1,075,051
Materials and Supplies Inventory				878	878
Accounts Receivable	4,350			2,515	6,865
Interfund Receivable	19,845				19,845
Intergovernmental Receivable				68,252	68,252
Prepaid Items	5,927				5,927
Taxes Receivable	818,395	146,732	127,008	17,360	1,109,495
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	80,885				80,885
Total Assets	<u>\$ 838,102</u>	<u>\$ 361,714</u>	<u>\$ 503,986</u>	<u>\$ 663,396</u>	<u>\$ 2,367,198</u>
Liabilities					
Current Liabilities:					
Accounts Payable	30,483			28,330	58,813
Accrued Wages and Benefits	615,780			128,947	744,727
Interfund Payable				19,845	19,845
Intergovernmental Payable	80,126			14,992	95,118
Matured Compensated Absences Payable	128,820			1,029	129,849
Deferred Revenue	797,453	142,665	123,632	58,746	1,122,496
Total Liabilities	<u>1,652,662</u>	<u>142,665</u>	<u>123,632</u>	<u>251,889</u>	<u>2,170,848</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances			236	3,267	3,503
Reserved for Prepaid Items	5,927				5,927
Reserved for Advances	19,845				19,845
Reserved for Property Taxes	20,942	4,067	3,376	470	28,855
Reserved for Capital Improvements	10,318				10,318
Reserved for Budget Stabilization	70,567				70,567
Unreserved, Undesignated, Reported in:					
General Fund	(942,159)				(942,159)
Special Revenue Funds				240,830	240,830
Debt Service Funds		214,982			214,982
Capital Projects Funds			376,742	166,940	543,682
Total Fund Balances	<u>(814,560)</u>	<u>219,049</u>	<u>380,354</u>	<u>411,507</u>	<u>196,350</u>
Total Liabilities and Fund Balances	<u>\$ 838,102</u>	<u>\$ 361,714</u>	<u>\$ 503,986</u>	<u>\$ 663,396</u>	<u>\$ 2,367,198</u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances	\$	196,350
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,702,035
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		72,236
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(118,469)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(1,440,000)	
Compensated Absences Payable	(527,962)	
	<u> </u>	(1,967,962)
Net Assets of Governmental Activities	\$	<u><u>6,884,190</u></u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 847,672	\$ 171,024	\$ 148,654	\$ 20,274	\$ 1,187,624
Intergovernmental	5,174,643			1,100,058	6,274,701
Interest	9,368				9,368
Tuition and Fees	6,308				6,308
Extracurricular Activities	5,425			101,080	106,505
Gifts and Donations	1,810			12,009	13,819
Customer Sales and Services				105,415	105,415
Miscellaneous	7,504			107,100	114,604
Total Revenues	<u>6,052,730</u>	<u>171,024</u>	<u>148,654</u>	<u>1,445,936</u>	<u>7,818,344</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,093,770		128,484	583,180	3,805,434
Special	619,714			251,548	871,262
Vocational	286,252				286,252
Support Services:					
Pupils	351,809			10,328	362,137
Instructional Staff	226,850			199,035	425,885
Board of Education	6,179				6,179
Administration	823,488			56,023	879,511
Fiscal	206,397	3,562	3,119	9,150	222,228
Operation and Maintenance of Plant	830,773		60,668	36,368	927,809
Pupil Transportation	129,527				129,527
Operation of Non-Instructional Services				313,633	313,633
Extracurricular Activities	135,721			76,776	212,497
Capital Outlay			58,426	907	59,333
Debt Service:					
Principal		50,000			50,000
Interest		81,145			81,145
Total Expenditures	<u>6,710,480</u>	<u>134,707</u>	<u>250,697</u>	<u>1,536,948</u>	<u>8,632,832</u>
Excess of Revenues Over (Under) Expenditures	<u>(657,750)</u>	<u>36,317</u>	<u>(102,043)</u>	<u>(91,012)</u>	<u>(814,488)</u>
OTHER FINANCING SOURCES AND USES:					
Proceeds from Sale of Fixed Assets	68,191				68,191
Total Other Financing Sources and Uses	<u>68,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,191</u>
Net Change in Fund Balances	(589,559)	36,317	(102,043)	(91,012)	(746,297)
Fund Balance (Deficit) at Beginning of Year/Restated	(211,323)	182,732	482,397	488,841	942,647
Fund Balance (Deficit) at End of Year	<u>\$ (800,882)</u>	<u>\$ 219,049</u>	<u>\$ 380,354</u>	<u>\$ 397,829</u>	<u>\$ 196,350</u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (746,297)

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	29,261	
Depreciation	(451,338)	
		(422,077)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(53,383)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	36,575	
Extracurricular	(5,425)	
Tuition and Fees	10,706	
Delinquent Property Taxes	(76,509)	
		(34,653)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

50,000

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(52,021)	
Compensated Absences Payable	56,775	
		4,754

Change in Net Assets of Governmental Activities		\$ <u><u>(1,201,656)</u></u>
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The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property and Other Local Taxes	\$ 913,637	\$ 913,637	\$ 847,468	\$ (66,169)
Intergovernmental	4,479,404	4,559,511	5,174,643	615,132
Interest	575,108	575,108	12,007	(563,101)
Tuition and Fees	10,100	10,100	6,308	(3,792)
Rent	150	150		(150)
Extracurricular Activities	9,600	9,600	5,425	(4,175)
Gifts and Donations	3,000	3,000	1,810	(1,190)
Miscellaneous	9,000	9,000	3,205	(5,795)
	<u>5,999,999</u>	<u>6,080,106</u>	<u>6,050,866</u>	<u>(29,240)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,092,255	3,172,362	2,967,282	205,080
Special	608,970	608,970	602,308	6,662
Vocational	275,110	275,110	266,330	8,780
Support Services:				
Pupils	242,720	242,720	320,225	(77,505)
Instructional Staff	168,285	168,285	216,731	(48,446)
Board of Education	4,500	4,500	8,804	(4,304)
Administration	707,516	707,516	793,997	(86,481)
Fiscal	228,275	228,275	200,486	27,789
Operation and Maintenance of Plant	832,647	832,647	831,667	980
Pupil Transportation	89,145	89,145	134,399	(45,254)
Extracurricular Activities	111,987	111,987	135,694	(23,707)
	<u>6,361,410</u>	<u>6,441,517</u>	<u>6,477,923</u>	<u>(36,406)</u>
Excess of Revenues Over (Under) Expenditures	<u>(361,411)</u>	<u>(361,411)</u>	<u>(427,057)</u>	<u>(65,646)</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Fixed Assets			68,191	68,191
Refund of Prior Year Expenditures			3,000	3,000
Advances In			45,013	45,013
Advances Out			(19,845)	(19,845)
	<u>-</u>	<u>-</u>	<u>96,359</u>	<u>96,359</u>
Net Change in Fund Balances	(361,411)	(361,411)	(330,698)	30,713
Fund Balance (Deficit) at Beginning of Year	361,178	361,178	361,178	-
Prior Year Encumbrances Appropriated	75	75	75	-
	<u>75</u>	<u>75</u>	<u>75</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ (158)</u>	<u>\$ (158)</u>	<u>\$ 30,555</u>	<u>\$ 30,713</u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 10,770	\$ 24,616
Total Assets	<u>10,770</u>	<u>24,616</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	-	24,616
Total Liabilities	<u>-</u>	<u>24,616</u>
Net Assets		
Held in Trust for Scholarships	10,770	-
Total Net Assets	<u>\$ 10,770</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Miscellaneous	\$ <u>220</u>
Total Additions	<u>220</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Assets	220
Net Assets Beginning of Year	<u>10,550</u>
Net Assets End of Year	\$ <u><u>10,770</u></u>

The notes to the basic financial statements are an integral part of this statement.

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**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Wellsville Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Wellsville Local School District is a local school district as defined by § 3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 45 non-certified and 82 certified full-time teaching personnel who provide services to 976 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise 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. The District does not have any component units.

The District is associated with two organizations, which are defined as jointly governed organization and an insurance purchasing pool. These organizations include the Columbiana County Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund are the District's major governmental funds:

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

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

Permanent Improvement Fund - The Permanent Improvement Fund is 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).

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of the private purpose trust fund and agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the function level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the Treasurer.

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$9,368.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as expenditure when purchased.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for the acquisition or construction of capital assets and budget stabilization.

I. Capital Assets

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is two thousand five hundred dollars. The District did possess infrastructure, which was sold during the fiscal year. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	20 - 50 years
Infrastructure	50 years
Furniture, Fixtures, and Equipment	5 - 20 years
Vehicles	5 - 15 years
Books	5 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

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

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

O. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	(\$225,001)	\$182,732	\$482,397	\$475,883	\$916,011
GASB Statement 34 Adjustment					
Change in Fund Structure:					
Expendable Trust				250	250
Enterprise				27,571	27,571
Internal Service				(14,863)	(14,863)
Interpretation 6 Adjustments:					
Compensated Absences Payable	13,678				13,678
Adjusted Fund Balance	<u>(\$211,323)</u>	<u>\$182,732</u>	<u>\$482,397</u>	<u>\$488,841</u>	<u>942,647</u>
GASB 34 Adjustments:					
Deferred Revenue					106,889
Capital Assets					9,177,495
Long-Term Liabilities					<u>(2,141,185)</u>
Governmental Activities Net Assets at June 30, 2003					<u>\$8,085,846</u>

4. BUDGETARY BASIS OF ACCOUNTING

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$589,559)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	26,428
Accrued FY 2004, Not Yet Received in Cash	(28,292)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(607,175)
Accrued FY 2004, Not Yet Paid in Cash	852,282
Advances Net	25,168
Encumbrances Outstanding at Year End (Budget Basis)	(9,550)
Budget Basis	(\$330,698)

5. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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 monies 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;

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).

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

Funds invested by fiscal agents are determined by trust agreements and bond indentures. Like the cash invested by the District Treasurer eligible investments include U.S. government obligations, U.S. government agencies, and certificates of deposit.

Any public depository, at the time it receives a District deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the Federal Deposit Insurance Corporation or the Savings Association Fund, equals or exceeds the amount of District funds deposited.

A public depository may at its option pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current market value at least equal to 110 percent of all public monies on deposit with the depository including the amount covered by federal insurance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits - At fiscal year end, the carrying amount of the District's deposits was \$184,742 and the bank balance was \$330,275. Of the bank balance, \$100,000 was covered by Federal Depository Insurance and \$230,275 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Investments - The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Carrying Value	Fair Value
Federal Government Securities	\$1,000,153	\$1,000,153	\$998,111
STAR Ohio		6,427	6,438
Total	\$1,000,153	\$1,006,580	\$1,004,549

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

Reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$1,191,322	
Investments:		
Federal Government Securities	(1,000,153)	\$1,000,153
STAR Ohio	(6,427)	6,427
GASB Statement No. 3	\$184,742	\$1,006,580

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$20,942 in the General Fund, \$470 in Special Revenue Fund, \$4,067 in the Debt Service Fund, and \$3,376 Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$20,738 in the General Fund, \$455 in Special Revenue Fund, \$3,938 in the Debt Service Fund, and \$3,268 Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$31,939,570	72%	32,109,210	74%
Commercial/Industrial	4,826,380	11%	5,121,490	12%
Public Utility	3,996,290	9%	3,357,420	7%
Tangible Personal	3,663,180	8%	2,934,960	7%
Total Assessed Value	\$44,425,420	100%	\$43,523,080	100%
Tax Rate per \$1,000 of assessed valuation	\$39.89		\$42.19	

7. RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$26,396
Title I	28,202
Title II-A	13,654
Total Intergovernmental Receivables	\$68,252

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$300,158		(\$9,080)	\$291,078
Total Nondepreciable Capital Assets	300,158		(9,080)	291,078
Depreciable Capital Assets				
Land Improvements	771,694	\$4,825	(9,727)	766,792
Buildings and Building Improvements	11,040,061	21,211	(327,188)	10,734,084
Furniture, Fixtures, and Equipment	691,953	3,225		695,178
Vehicles	292,637			292,637
Infrastructure	22,732		(22,732)	0
Books	471,260			471,260
Total Depreciable Capital Assets	13,290,337	29,261	(359,647)	12,959,951
Less Accumulated Depreciation				
Land Improvements	278,283	32,129	(9,727)	300,685
Buildings and Building Improvements	3,094,120	299,166	(290,840)	3,102,446
Furniture, Fixtures, and Equipment	394,502	52,140		446,642
Vehicles	236,451	16,823		253,274
Infrastructure	14,322	455	(14,777)	0
Books	395,322	50,625		445,947
Total Accumulated Depreciation	4,413,000	451,338	(315,344)	4,548,994
Depreciable Capital Assets, Net	8,877,337	(422,077)	(44,303)	8,410,957
Governmental Activities Capital Assets, Net	\$9,177,495	(\$422,077)	(\$53,383)	\$8,702,035

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$354,542
Support Services:	
Instructional Staff	49,457
Administration	3,188
Operation and Maintenance of Plant	1,492
Pupil Transportation	16,823
Non-Instructional Services	11,756
Extracurricular	14,080
Total Depreciation Expense	<u>\$451,338</u>

The District restated Capital Assets at the beginning of the year as follows:

Balance at June 30, 2003	\$16,041,706
Restatement	<u>(2,451,211)</u>
Balance, Restated	<u>\$13,590,495</u>

9. RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for various purposes.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$80,885

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004 the District's insurance coverage through Wausau Insurance Corporation was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents	\$1,000	\$32,952,477
Automobile Liability	100	1,000,000
Uninsured Motorists	0	1,000,000
General Liability		
Per occurrence	0	1,000,000
Per year		3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

For fiscal year 2004 the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$153,112, \$137,448, and \$122,540, respectively, 66 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contributions for fiscal year 2004 are \$52,737.

B. State Teachers Retirement System

The School 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 43215-3771 or by calling (614) 227-4090.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$377,706, \$502,635, and \$491,128, respectively, 80 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$77,540.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For this fiscal year, State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$368,739,000. There were 111, 853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five 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% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for classified employees and 300 days for certificated employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 62 days for classified employees and 62 days for certificated employees.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government – Wide Financial Statements:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2004</u>	<u>Due Within One Year</u>
School Improvement Bonds	\$1,490,000		\$50,000	\$1,440,000	\$55,000
Pension Obligation	66,448		66,448		
Compensated Absences	584,737	\$527,962	584,737	527,962	
Total Long-Term Obligations	<u>\$2,141,185</u>	<u>\$527,962</u>	<u>\$701,185</u>	<u>\$1,967,962</u>	<u>\$55,000</u>

General Obligation Bonds - On May 1, 1998, Wellsville Local School District issued \$1,709,000 in voted general obligation bonds for school improvements. The bonds were issued for a twenty-two year period with final maturity at December 1, 2020, with varying interest rates from 4.35 percent to 5.65 percent. The bonds will be retired from the Debt Service Fund.

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2004, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$55,000	\$79,895	\$134,895
2006	55,000	77,090	132,090
2007	60,000	74,230	134,230
2008	65,000	71,080	136,080
2009	65,000	67,635	132,635
2010-2014	385,000	280,157	665,157
2015-2019	510,000	159,330	669,330
2020-2021	245,000	20,905	265,905
Total	<u>\$1,440,000</u>	<u>\$830,322</u>	<u>\$2,270,322</u>

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds is required to be set aside at fiscal year end.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2003	(\$90,772)		\$70,567
Current Year Set-aside Requirement	145,827	\$145,827	
Qualifying Disbursements	<u>(128,737)</u>	<u>(135,509)</u>	
Total	<u>(\$73,682)</u>	<u>\$10,318</u>	<u>\$70,567</u>
Cash Balance Carried Forward to FY 2005	<u>(\$73,682)</u>	<u>\$10,318</u>	<u>\$70,567</u>
Total Restricted Assets		<u>\$10,318</u>	<u>\$70,567</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements.

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. S.B. 345 places special restrictions on the use of Bureau of Workers Compensation (BWC) rebate money remaining in the budget stabilization reserve as of April 10, 2001, which is \$70,567 at June 30, 2004. Other non-BWC monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the general fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

16. JOINTLY GOVERNED ORGANIZATIONS

Columbiana County Career Center - The Columbiana County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Columbiana County Career Center, Penny Kale, who serves as Treasurer, at 9364 State Route 45, Lisbon, Ohio 44432.

17. GROUP PURCHASING POOLS

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

18. 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.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

19. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

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WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU-04	10.550		\$20,806		\$20,806
National School Breakfast Program	05-PU-04	10.553	\$25,746		\$25,746	
National School Lunch Program	04-PU-04	10.555	143,713		143,713	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>169,459</u>	<u>20,806</u>	<u>169,459</u>	<u>20,806</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to State (IDEA Part B)	6B-SF-2003P	84.027	19,073		19,073	
	6B-SF-2004		144,472		144,472	
Total Special Education Grants to State			<u>163,545</u>		<u>163,545</u>	
Total Special Education Cluster			<u>163,545</u>		<u>163,545</u>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003	84.010	29,958		39,277	
	C1-S1-2004		240,367		237,049	
Total ESEA Title I			<u>270,325</u>		<u>276,326</u>	
Drug Free School Grant	DR-S1-2003	84.186	1,525		1,525	
	DR-S1-2004		9,562		6,127	
Total Drug Free School Grant			<u>11,087</u>		<u>7,652</u>	
ACES II FIE Grant		84.215			10,204	
					149	
Total FIE Grant			<u>40,000</u>		<u>2,524</u>	
			<u>40,000</u>		<u>12,877</u>	
Innovative Educational Program Strategies	C2-S1-2003	84.298	5,292		5,292	
	C2-S1-2004		5,915		5,915	
Total Innovative Educational Program Strategies			<u>11,207</u>		<u>11,207</u>	
Title II D Grant	TJ-S1-2003	84.318	6,332		7,722	
	TJ-S1-2004		7,270		2,417	
Total Title II D Grant			<u>13,602</u>		<u>10,139</u>	
Title II A Improving Teacher Quality Program	TR-S1-2003	84.367	32,678		32,678	
	TR-S1-2004		60,229		56,366	
Total Title II A Grant			<u>92,907</u>		<u>89,044</u>	
Goals 2000 Continuous Improvement Grant	G2-S1-01	84.276	(799)			
Total Department of Education			<u>601,874</u>		<u>570,790</u>	
Total Federal Awards			<u>\$771,333</u>	<u>\$20,806</u>	<u>\$740,249</u>	<u>\$20,806</u>

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Wellsville Local School District
Columbiana County
929 Center Street
Wellsville, Ohio 43968

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Wellsville Local School District, Columbiana County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2005, which includes a reference to the implementation of a new reporting model, as required by the provisions of Governmental Accounting Standards Board, Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 15, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated March 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

Wellsville Local School District
Columbiana County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 15, 2005



Auditor of State Betty Montgomery

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

Wellsville Local School District
Columbiana County
929 Center Street
Wellsville, Ohio 43968

To the Board of Education:

Compliance

We have audited the compliance of Wellsville Local School District, Columbiana County, Ohio, 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 each of its major federal programs for the year ended June 30, 2004. Wellsville Local School District's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the year ended June 30, 2004.

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 the 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 the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, 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 15, 2005

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

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)?	Yes
(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:	Nutrition Cluster CFDA # 10.550, 10.553, 10.555 Special Education Cluster CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2004-001
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Noncompliance Citation

Ohio Revised Code § 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

- 1. Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the District Board of Education if such expenditure is otherwise valid.

- 2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- 3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The District did not properly certify or record the amount against the applicable appropriation accounts for 15% of tested expenditures in fiscal year 2004. The District did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Treasurer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

The District should certify purchases to which Ohio Revised Code § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code § 5705.41(D) requires authorizing disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of Ohio Revised Code § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None	
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**Auditor of State
Betty Montgomery**

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800-282-0370
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**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA 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
JUNE 2, 2005**