



Mary Taylor, CPA
Auditor of State

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

February 13, 2008

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

The discussion and analysis of the Wellston City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$600,569.
- General revenues accounted for \$14,665,985 or 83.5 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,899,347 or 16.5 percent of total revenues of \$17,565,332.
- Total assets of governmental activities increased \$638,129. This is primarily due to increases in cash and cash equivalents of \$1,357,553, combined with a decrease in capital assets of \$693,886.
- The School District had \$16,964,763 in expenses related to governmental activities; only \$2,899,347 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental) of \$14,665,985 covered the remaining expenses.
- The School District's only major fund, the General Fund, had \$13,307,126 in revenues and \$12,681,980 in expenditures. The General Fund's balance increased \$847,177.

USING THE BASIC FINANCIAL STATEMENTS

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

Table 1
Net Assets

	Governmental Activities		
	2007	Restated 2006	Change
Assets			
Current and Other Assets	\$13,057,917	\$11,725,902	\$1,332,015
Capital Assets	34,310,986	35,004,872	(693,886)
Total Assets	47,368,903	46,730,774	638,129
Liabilities			
Long-Term Liabilities	3,508,562	3,633,277	(124,715)
Other Liabilities	4,724,721	4,562,446	162,275
Total Liabilities	8,233,283	8,195,723	37,560
Net Assets			
Invested in Capital Assets	31,430,986	31,990,792	(559,806)
Restricted	2,817,697	2,721,846	95,851
Unrestricted	4,886,937	3,822,413	1,064,524
Total Net Assets	\$39,135,620	\$38,535,051	\$600,569

Total assets of governmental activities increased \$638,129. This is primarily due to increases in cash and cash equivalents of \$1,357,553, due to conservative spending practices, combined with a decrease of \$693,886 in capital assets due to deletions and depreciation expense exceeding current year additions.

In total, liabilities increased \$37,560. This is the result of decreases in deferred revenue of \$364,404, due to the loss of the District's permanent improvements levy, and decreases in long-term liabilities of \$124,715, due to the retirement of the lease for fitness equipment, as well as, payments made on the District's outstanding school construction bond combined with increases of \$299,217 in accrued wages and benefits, the result of annual salary increases, and \$269,333 in contracts payable related to the School District's classroom facilities project.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, and comparisons to fiscal year 2006.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

Table 2
Changes in Net Assets

Revenues	Governmental Activities		Change
	2007	2006	
Program Revenues:			
Charges for Services	\$460,331	\$434,261	\$26,070
Operating Grants, Contributions and Interest	2,417,201	2,649,504	(232,303)
Capital Grants, Contributions and Interest	21,815	59,688	(37,873)
	2,899,347	3,143,453	(244,106)
General Revenues:			
Property Taxes	3,271,614	2,971,932	299,682
Grants and Entitlements	10,985,643	10,151,788	833,855
Investment Earnings	318,391	193,998	124,393
Gain on Sale of Capital Assets	18,710	0	18,710
Miscellaneous	71,627	101,097	(29,470)
	14,665,985	13,418,815	1,247,170
Total Revenues	17,565,332	16,562,268	1,003,064
Program Expenses			
Instruction:			
Regular	7,327,841	6,828,070	(499,771)
Special	2,690,678	2,696,180	5,502
Vocational	137,404	211,090	73,686
Adult/Continuing	0	446	446
Support Services:			
Pupils	800,609	669,664	(130,945)
Instructional Staff	670,418	976,600	306,182
Board of Education	124,768	115,264	(9,504)
Administration	1,227,296	1,296,362	69,066
Fiscal	554,195	385,119	(169,076)
Business	5,155	17,038	11,883
Operation and Maintenance of Plant	995,330	1,117,579	122,249
Pupil Transportation	826,997	993,845	166,848
Central	144,940	88,649	(56,291)
Operation of Non-Instructional Services:			
Food Service Operations	884,962	885,268	306
Community Services	66,094	34,557	(31,537)
Extracurricular Activities	355,677	311,867	(43,810)
Interest and Fiscal Charges	152,399	159,542	7,143
Total Expenses	16,964,763	16,787,140	(177,623)
Increase (Decrease) in Net Assets	600,569	(224,872)	563,209
Net Assets at Beginning of Year - Restated (See Note 3)	38,535,051	38,759,923	(224,872)
Net Assets at End of Year	\$39,135,620	\$38,535,051	\$338,337

While the School District was able to maintain a stable financial position through fiscal year 2007 and increase total net assets, the economic pressures of academic requirements continue. Revenues increased \$1,003,064 compared with 2006. Notwithstanding the failure of the School District's permanent improvement renewal levy, property tax revenue increased \$299,682 due to Jackson County's sexennial property revaluation, grants and entitlement revenue increased \$833,855 due to an increase in student enrollment, and investment earnings grew \$124,393 resulting from increases in interest rates on the School District's investments.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the revenue from real property taxes generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increases in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00. This legislation helps explain the relatively sizable increase in the District's taxable value accompanied by the relatively small increase in tax revenue. Property taxes made up 18.6 percent of revenues for governmental activities for the School District in 2007. Additionally, increases in property taxes would only have a nominal effect upon the School District's total revenue. This is due to the funding formula in place in Ohio. Any increase in property tax revenue would be offset by a corresponding decrease in state funding the School District would receive.

The increases realized in total revenue were able to reverse the negative trend of annual decreases in net assets of governmental activities carried forward from the preceding fiscal year. Reductions in the support services (administration, operation and maintenance of plant) were not able to offset increases in instructional and non-instructional services, though total spending was held to a 1 percent increase.

The primary sources of revenue for governmental activities are restricted and unrestricted grants and property taxes. These revenue sources represent 95 percent of total revenue. Unrestricted grants and entitlements, alone, represent 62.5 percent of total revenues. Program specific charges for services, interest income, gifts and donations, and miscellaneous revenues account for the remaining 5 percent.

Instruction comprises approximately 60 percent of governmental program expenses. Additional supporting services for pupils, staff, and business operations encompassed an additional 32 percent. The remaining 8 percent of program expenses is used for other obligations of the School District such as non-instructional service, food service operations, extracurricular activities, and interest and fiscal charges.

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

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

**Table 3
Governmental Activities**

	2007 Total Cost of Services	2007 Net Cost of Services	2006 Total Cost of Services	2006 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$7,327,841	\$6,860,412	\$6,828,070	\$5,367,235
Special	2,690,678	1,704,560	2,696,180	1,569,348
Vocational	137,404	113,457	211,090	183,315
Adult/Continuing	0	0	446	(52)
Support Services:				
Pupils	800,609	718,519	669,664	521,121
Instructional Staff	670,418	598,860	976,600	739,803
Board of Education	124,768	113,641	115,264	109,361
Administration	1,227,296	1,162,798	1,296,362	1,195,397
Fiscal	554,195	554,195	385,119	324,338
Business	5,155	5,155	17,038	17,038
Operation and Maintenance of Plant	995,330	912,257	1,117,579	1,080,939
Pupil Transportation	826,997	760,106	993,845	925,232
Central	144,940	141,374	88,649	88,649
Non-Instructional Services:				
Food Service Operations	884,962	52,982	885,268	144,962
Community Services	66,094	17,717	34,557	(13,300)
Extracurricular Activities	355,677	196,984	311,867	174,503
Interest and Fiscal Charges	152,399	152,399	159,542	159,542
Totals	<u>\$16,964,763</u>	<u>\$14,065,416</u>	<u>\$16,787,140</u>	<u>\$12,587,431</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 85.4% of all instructional activities are supported through taxes and other general revenues.

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,529,221 and expenditures of \$16,615,039.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the School District amended its general fund appropriations numerous times. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenues were \$12,937,957, below final estimates of \$13,110,427. The difference was due to incorrect assumption regarding the School District's revaluation. Final estimated revenues were above original estimated revenues of \$12,607,760. Expenditures of \$12,661,902 were lower than final appropriations of \$13,973,897. The School District's ending unobligated General Fund balance was \$6,207,104.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the School District had \$34,310,986 invested in land, land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to 2006.

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

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>Restated 2006</u>
Land	\$153,935	\$242,895
Land Improvements	27,530	29,086
Buildings and Improvements	31,357,376	32,089,750
Furniture, Fixtures, and Equipment	1,904,040	2,009,403
Vehicles	561,398	517,706
Textbooks	306,707	116,032
Totals	<u>\$34,310,986</u>	<u>\$35,004,872</u>

For addition information on capital assets, see Note 10 to the basic financial statements.

Debt

At June 30, 2007, the School District had general obligation bonds outstanding in the amount of \$2,880,000. For additional information on debt, see Note 15 to the basic financial statements.

CURRENT ISSUES

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

Externally, the School District is largely dependent on State funding sources (nearly 75 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. Though the School District's enrollment increased in fiscal year 2007, we forecast enrollment to decrease in future years, and while State revenue growth has shifted toward school districts with low property tax wealth, declining enrollment will serve to somewhat offset any increase in State funding.

Wellston City School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year June 30, 2007

Unaudited

Although higher per-pupil funding has helped the School District lessen the impact of increased instructional expenses, much of the positive impact has been offset by other negative financial factors that occurred in the past year (higher salaries and insurance costs).

As the preceding information shows, the School District continues to depend upon its taxpayers. Although the School District has continued to keep spending in line with revenues, and carefully watched financial planning, this must continue of the School District hopes to remain on firm financial footing.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Wellston City School District, Ohio

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,272,692
Cash and Cash Equivalents in Segregated Accounts	297,102
Materials and Supplies Inventory	8,998
Prepaid Items	46,003
Accrued Interest Receivable	1,356
Intergovernmental Receivable	265,350
Accounts Receivable	2,101
Property Taxes Receivable	3,164,315
Nondepreciable Capital Assets	153,935
Depreciable Capital Assets, Net	<u>34,157,051</u>
<i>Total Assets</i>	<u>47,368,903</u>
Liabilities	
Accounts Payable	261,064
Contracts Payable	269,333
Accrued Wages and Benefits Payable	1,403,768
Intergovernmental Payable	374,190
Accrued Interest Payable	12,329
Vacation Benefits Payable	32,471
Retainage Payable	27,769
Deferred Revenue	2,343,797
Long-Term Liabilities:	
Due within One Year	135,425
Due in More than One Year	<u>3,373,137</u>
<i>Total Liabilities</i>	<u>8,233,283</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	31,430,986
Restricted for:	
Budget Stabilization	56,688
Bus Purchase	85,797
Debt Service	959,064
Capital Projects	445,039
Other Purposes	1,271,109
Unrestricted	<u>4,886,937</u>
<i>Total Net Assets</i>	<u><u>\$39,135,620</u></u>

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June, 30, 2007

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$7,327,841	\$35,110	\$432,319	\$0	(\$6,860,412)
Special	2,690,678	0	986,118	0	(1,704,560)
Vocational	137,404	0	23,947	0	(113,457)
Support Services:					
Pupils	800,609	0	82,090	0	(718,519)
Instructional Staff	670,418	0	71,558	0	(598,860)
Board of Education	124,768	0	11,127	0	(113,641)
Administration	1,227,296	0	64,498	0	(1,162,798)
Fiscal	554,195	0	0	0	(554,195)
Business	5,155	0	0	0	(5,155)
Operation and Maintenance of Plant	995,330	0	83,073	0	(912,257)
Pupil Transportation	826,997	0	45,076	21,815	(760,106)
Central	144,940	0	3,566	0	(141,374)
Operation of Non-Instructional Services:					
Food Service Operations	884,962	278,172	553,808	0	(52,982)
Community Services	66,094	0	48,377	0	(17,717)
Extracurricular Activities	355,677	147,049	11,644	0	(196,984)
Interest and Fiscal Charges	152,399	0	0	0	(152,399)
Totals	\$16,964,763	\$460,331	\$2,417,201	\$21,815	(14,065,416)

General Revenues

Property Taxes Levied for:	
General Purposes	2,737,097
Debt Service	396,965
Capital Projects	80,386
Classroom Facilities Maintenance	57,166
Grants and Entitlements not Restricted to Specific Programs	10,985,643
Investment Earnings	318,391
Gain on Sale of Capital Assets	18,710
Miscellaneous	71,627
Total General Revenues	14,665,985
<i>Change in Net Assets</i>	600,569
<i>Net Assets at Beginning of Year - Restated (See Note 3)</i>	38,535,051
<i>Net Assets at End of Year</i>	\$39,135,620

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2007*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,175,387	\$2,954,820	\$9,130,207
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	142,485	0	142,485
Cash and Cash Equivalents in Segregated Accounts	114,926	182,176	297,102
Receivables:			
Taxes	2,705,165	459,150	3,164,315
Accounts	823	1,278	2,101
Intergovernmental	100,594	164,756	265,350
Interfund	114,795	0	114,795
Accrued Interest	1,356	0	1,356
Materials and Supplies Inventory	0	8,998	8,998
Prepaid Items	46,003	0	46,003
Total Assets	<u>\$9,401,534</u>	<u>\$3,771,178</u>	<u>\$13,172,712</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$205,830	\$55,234	\$261,064
Contracts Payable	114,926	154,407	269,333
Accrued Wages and Benefits Payable	1,151,796	251,972	1,403,768
Retainage Payable	0	27,769	27,769
Interfund Payable	0	114,795	114,795
Intergovernmental Payable	305,422	68,768	374,190
Deferred Revenue	2,402,386	508,659	2,911,045
Total Liabilities	<u>4,180,360</u>	<u>1,181,604</u>	<u>5,361,964</u>
 Fund Balances			
Reserved for Encumbrances	101,528	185,467	286,995
Reserved for Budget Stabilization	56,688	0	56,688
Reserved for Bus Purchases	85,797	0	85,797
Reserved for Property Taxes	399,441	63,326	462,767
Unreserved, Undesignated, Reported in:			
General Fund	4,577,720	0	4,577,720
Special Revenue Funds	0	1,112,336	1,112,336
Capital Projects Funds	0	352,060	352,060
Debt Service Fund	0	876,385	876,385
Total Fund Balances	<u>5,221,174</u>	<u>2,589,574</u>	<u>7,810,748</u>
Total Liabilities and Fund Balances	<u>\$9,401,534</u>	<u>\$3,771,178</u>	<u>\$13,172,712</u>

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007*

Total Governmental Fund Balances		\$7,810,748
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not financial resources are not reported in the funds		34,310,986
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	357,751	
Grants	<u>209,497</u>	567,248
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(2,880,000)	
Accrued Interest Payable	(12,329)	
Sick Leave Benefits Payable	(628,562)	
Vacation Benefits Payable	<u>(32,471)</u>	<u>(3,553,362)</u>
 Net Assets of Governmental Activities		 <u><u>\$39,135,620</u></u>

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$2,768,516	\$572,861	\$3,341,377
Intergovernmental	10,204,414	3,084,975	13,289,389
Investment Earnings	254,668	94,393	349,061
Tuition and Fees	7,183	24,827	32,010
Rent	3,100	0	3,100
Charges for Services	0	278,172	278,172
Donations	0	17,436	17,436
Extracurricular	0	147,049	147,049
Miscellaneous	69,245	2,382	71,627
<i>Total Revenues</i>	<u>13,307,126</u>	<u>4,222,095</u>	<u>17,529,221</u>
Expenditures			
Current:			
Instruction:			
Regular	5,790,043	1,366,457	7,156,500
Special	1,912,954	617,926	2,530,880
Vocational	128,517	0	128,517
Support Services:			
Pupils	564,530	166,381	730,911
Instructional Staff	631,282	235,480	866,762
Board of Education	119,143	5,625	124,768
Administration	1,016,769	105,977	1,122,746
Fiscal	535,947	17,776	553,723
Business	5,155	0	5,155
Operation and Maintenance of Plant	915,055	43,305	958,360
Pupil Transportation	786,167	4,114	790,281
Central	89,865	51,978	141,843
Operation of Non-Instructional Services:			
Food Service Operations	266	792,844	793,110
Community Services	0	61,697	61,697
Extracurricular Activities	186,287	176,398	362,685
Debt Service:			
Principal Retirement	0	134,080	134,080
Interest and Fiscal Charges	0	153,021	153,021
<i>Total Expenditures</i>	<u>12,681,980</u>	<u>3,933,059</u>	<u>16,615,039</u>
<i>Excess of Revenues Over Expenditures</i>	<u>625,146</u>	<u>289,036</u>	<u>914,182</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	241,000	0	241,000
Transfers In	0	18,969	18,969
Transfers Out	(18,969)	0	(18,969)
<i>Total Other Financing Sources (Uses)</i>	<u>222,031</u>	<u>18,969</u>	<u>241,000</u>
<i>Net Change in Fund Balance</i>	847,177	308,005	1,155,182
<i>Fund Balances at Beginning of Year</i>	<u>4,373,997</u>	<u>2,281,569</u>	<u>6,655,566</u>
<i>Fund Balances at End of Year</i>	<u><u>\$5,221,174</u></u>	<u><u>\$2,589,574</u></u>	<u><u>\$7,810,748</u></u>

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds \$1,155,182

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

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

Capital Asset Additions	612,836	
Depreciation Expense	<u>(1,084,432)</u>	(471,596)

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

Proceeds from the Sale of Capital Assets	(241,000)	
Gain on Disposal of Capital Assets	<u>18,710</u>	(222,290)

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

Grants	87,164	
Delinquent Taxes	<u>(69,763)</u>	17,401

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

134,080

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

622

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

Sick Leave Benefits Payable	(9,365)	
Vacation Benefits Payable	<u>(3,465)</u>	<u>(12,830)</u>

Change in Net Assets of Governmental Activities

\$600,569

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2007*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$2,228,961	\$2,551,380	\$2,401,579	(\$149,801)
Intergovernmental	10,054,942	10,144,147	10,204,414	60,267
Investment Earnings	175,585	235,000	253,312	18,312
Tuition and Fees	4,693	15,300	7,183	(8,117)
Rent	3,111	3,100	3,100	0
Miscellaneous	140,468	161,500	68,369	(93,131)
<i>Total Revenues</i>	<u>12,607,760</u>	<u>13,110,427</u>	<u>12,937,957</u>	<u>(172,470)</u>
Expenditures				
Current:				
Instruction:				
Regular	4,772,567	5,897,373	5,573,358	324,015
Special	2,278,996	2,047,793	1,892,208	155,585
Vocational	241,238	134,331	126,955	7,376
Adult/Continuing	0	12,000	0	12,000
Support Services:				
Pupils	557,140	586,151	547,054	39,097
Instructional Staff	1,043,582	873,247	692,250	180,997
Board of Education	147,503	265,958	83,091	182,867
Administration	1,211,237	1,077,747	1,017,837	59,910
Fiscal	379,612	561,385	528,025	33,360
Business	39,594	5,254	5,155	99
Operation and Maintenance of Plant	1,002,413	1,121,610	932,818	188,792
Pupil Transportation	1,711,759	1,060,504	989,498	71,006
Central	92,139	90,632	87,193	3,439
Operation of Non-Instructional Activities:				
Food Service Operations	2,298	762	266	496
Extracurricular Activities	191,607	239,150	186,194	52,956
<i>Total Expenditures</i>	<u>13,671,685</u>	<u>13,973,897</u>	<u>12,661,902</u>	<u>1,311,995</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,063,925)</u>	<u>(863,470)</u>	<u>276,055</u>	<u>1,139,525</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	11,789	245,500	241,000	(4,500)
Advances In	150,502	172,044	95,700	(76,344)
Transfers Out	(24,185)	(26,491)	(18,969)	7,522
Advances Out	(23,925)	(176,344)	0	176,344
<i>Total Other Financing Sources (Uses)</i>	<u>114,181</u>	<u>214,709</u>	<u>317,731</u>	<u>103,022</u>
<i>Net Change in Fund Balance</i>	(949,744)	(648,761)	593,786	1,242,547
<i>Fund Balance at Beginning of Year</i>	5,347,693	5,347,693	5,347,693	0
Prior Year Encumbrances Appropriated	<u>265,625</u>	<u>265,625</u>	<u>265,625</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$4,663,574</u>	<u>\$4,964,557</u>	<u>\$6,207,104</u>	<u>\$1,242,547</u>

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$52,837</u></u>
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Liabilities

Due to Students	<u><u>\$52,837</u></u>
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See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 75 classified employees, 130 certified teaching personnel, and 6 administrators, who provide services to 1,670 students and other community members.

Reporting Entity

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

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

The School District participates in the Southeastern Ohio Voluntary Education Cooperative, the Gallia-Jackson-Vinton Joint Vocational School District, the Coalition of Rural and Appalachian Schools, and the South Eastern Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program which is defined as an insurance purchasing pool. These organizations are presented in Notes 16 and 17.

The following activity is included within the reporting entity:

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

Note 2 - Summary of Significant Accounting Policies

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

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

During fiscal year 2007, investments were limited to non-negotiable certificates of deposit, which are reported at cost, and to the State Treasury Asset Reserve of Ohio (STAROhio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$254,668, which includes \$84,408 assigned from other School District funds.

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

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which the services are consumed.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by State statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

H. Inventory

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

I. Capital Assets

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

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

J. Interfund Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

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 School District will compensate the employees for the benefits through paid time off or some other means.

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

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance Reserves

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

N. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and on interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated on the statement of net assets.

O. Estimates

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

P. Net Assets

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

The government-wide statement of net assets reports \$2,817,697 of restricted net assets, none of which is restricted by enabling legislation.

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

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

Q. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances at year end.

Note 3 – Restatement of Prior Year Balances

At June 30, 2006, capital assets, net of related debt, were overstated due to unreported deletions in previous fiscal years. The effects of these changes to the government-wide financial statements are presented below:

	<u>Governmental Activities</u>
Net Asset Balances June 30, 2006	\$38,778,343
Capital Assets Restatement	<u>(243,292)</u>
Restated Net Assets, June 30, 2006	<u><u>\$38,535,051</u></u>

Note 4 - Fund Deficits

The following funds had deficit fund balances as of June 30, 2007:

	<u>Deficit</u>
Special Revenue Funds:	
Food Service	\$10,012
Public Preschool	7,812
Title VI-B Idea	23,012
Title I	7,866
Drug Free Schools	549
Title II-A	7,521

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

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

Net Change in Fund Balance

GAAP Basis	\$847,177
Revenue Accruals	(368,706)
Expenditure Accruals	292,238
Prepaid Items at End of Year	(46,003)
Unreported Cash at End of Year	(463)
Advances	95,700
Encumbrances	(226,157)
Budget Basis	<u>\$593,786</u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$4,071,220 of the School District's bank balance of \$4,271,220 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments As of June 30, 2007, the School District's investment in STAROhio had an average maturity of 38.9 days and a fair value of \$5,626,041.

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

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14 (M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

The amount available as an advance at June 30, 2007, was \$399,441 in the General Fund, \$53,584 in the Bond Retirement Debt Service Fund, and \$9,742 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2006, was \$32,504 in the General Fund, \$4,047 in the Bond Retirement Debt Service Fund, \$3,681 in the Permanent Improvements Capital Project Fund and \$614 in the Classroom Facilities Maintenance Special Revenue Fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
Real Property	\$98,535,050	76.25%	\$99,636,770	80.52%
Public Utility Tangible Personal Property	7,202,530	5.57%	6,991,330	5.65%
Tangible Personal Property	23,489,243	18.18%	17,118,408	13.83%
Total	\$129,226,823	100.00%	\$123,746,508	100.00%
 Tax Rate per \$1,000 of Assessed Valuation		\$27.30		\$27.30

Note 8 - Receivables

Receivables at June 30, 2007, consisted of property taxes, accounts, interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Community Alternative Funding System	\$96,662
School Lunch and Breakfast Program	46,055
Public Preschool	11,089
Core	46,726
Title VI-B Idea	15,245
Title I	19,492
Safe and Drug Free Schools	742
Handicapped Preschool	1,703
Title II-A	4,219
Title I - Rural	13,619
Miscellaneous	9,798
Total	\$265,350

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, the School District contracted with the Indiana Insurance Company for property, boiler, general liability, fleet, and professional liability insurance. The types and amounts of coverage provided are as follows:

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$49,156,346
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	2,000,000
Products - Completed Operations Aggregate Limit	0	2,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Errors and Omissions:		
Each Occurrence	2,500	1,000,000
Aggregate Limit	2,500	1,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	25,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2006.

B. Workers' Compensation

For fiscal year 2007, the School 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 School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance at 6/30/06	Additions	Deductions	Balance at 6/30/07
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$242,895	\$0	(\$88,960)	\$153,935
Depreciable Capital Assets:				
Land Improvements	116,031	0	0	116,031
Buildings and Improvements	35,316,324	2,390	(145,741)	35,172,973
Furniture, Fixtures, and Equipment	3,328,549	217,136	(123,776)	3,421,909
Vehicles	1,220,980	141,018	0	1,361,998
Textbooks	368,647	252,292	0	620,939
Total Depreciable Capital Assets	40,350,531	612,836	(269,517)	40,693,850
Less Accumulated Depreciation:				
Land Improvements	(86,945)	(1,556)	0	(88,501)
Buildings and Improvements	(3,226,574)	(627,657)	38,634	(3,815,597)
Furniture, Fixtures, and Equipment	(1,319,146)	(296,276)	97,553	(1,517,869)
Vehicles	(703,274)	(97,326)	0	(800,600)
Textbooks	(252,615)	(61,617)	0	(314,232)
Total Accumulated Depreciation	(5,588,554)	(1,084,432) *	136,187	(6,536,799)
Total Capital Assets being Depreciated, Net	34,761,977	(471,596)	(133,330)	34,157,051
Capital Assets, Net	\$35,004,872	(\$471,596)	(\$222,290)	\$34,310,986

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$341,337
Special	146,301
Vocational	8,887
Support Services:	
Pupils	57,622
Instructional Staff	88,678
Administration	75,395
Fiscal	13,283
Operation and Maintenance of Plant	50,866
Pupil Transportation	177,748
Central	4,397
Food Service Operations	104,305
Community Services	4,397
Extracurricular Activities	11,216
Total Depreciation Expense	<u>\$1,084,432</u>

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$185,344, \$189,813, and \$167,881, respectively; 46.15 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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 DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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, 2007, 2006, and 2005, were \$872,884, \$728,966, and \$873,409 respectively; 85.30 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$13,192 made by the School District and \$26,484 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Fund. For the School District, this amount equaled \$67,145 for fiscal year 2007.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$92,895.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

Note 13- Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to sick leave accrual. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 56 days, and at 30 percent for classified employees up to a maximum of 60 days.

B. Insurance Benefits

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

Health insurance is provided through United Healthcare. Monthly premiums for this coverage are \$1,392.96 for family coverage and \$464.32 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$51.62 for family coverage and \$20.65 for single coverage. The School District pays 99% of both family and single coverage premiums.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 14 - Capitalized Leases

During the fiscal year, the School District retired a capital lease it had entered into for fitness equipment. This lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2007 totaled \$19,080 in the governmental funds.

The equipment has been capitalized in the amount of \$218,901, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2007, was \$82,088, leaving a remaining book value of \$136,813.

Note 15 - Long Term Obligations

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Outstanding 6/30/06	Additions	Deductions	Outstanding 6/30/07	Due Within One Year
Governmental Activities:					
1999 3.30% - 5.85% School Construction General					
Obligation Bonds	\$2,995,000	\$0	\$115,000	\$2,880,000	\$120,000
Capital Leases	19,080	0	19,080	0	0
Sick Leave Benefits	619,197	102,193	92,828	628,562	15,425
Total Governmental Activities					
Long-Term Liabilities	\$3,633,277	\$102,193	\$226,908	\$3,508,562	\$135,425

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

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$120,000	\$147,745	\$267,745
2009	125,000	142,263	267,263
2010	135,000	136,412	271,412
2011	145,000	129,968	274,968
2012	150,000	122,247	272,247
2013 - 2017	935,000	460,568	1,395,568
2018 - 2022	1,270,000	166,000	1,436,000
	\$2,880,000	\$1,305,203	\$4,185,203

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Capital leases were paid from the Bond Retirement Debt Service Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Food Service, Public Preschool, Disadvantaged Pupil Impact Aid, Title VI-B Idea, and the Handicapped Preschool Special Revenue Funds.

The School District's overall legal debt margin was \$7,540,010, with an unvoted debt margin of \$1,054,449 at June 30, 2007.

Note 16 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 30 participants consisting of 26 school districts and 4 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2007, the School District paid \$30,491 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

B. Gallia-Jackson-Vinton Joint Vocational School District

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

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (Coalition) consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid the Coalition \$300 for services provided during the fiscal year.

D. South Eastern Ohio Special Education Regional Resource Center

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The Trimble Local School District's superintendent is an alternate of the SERRC Board. The School District did not pay the SERRC for services during the fiscal year. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 18 – Interfund Activity and Balances

A. Transfers

During fiscal year 2007, the General Fund transferred \$6,491 to the Bond Retirement Debt Service Fund to be used for lease payments, and \$12,478 to the Uniform School Supply Special Revenue Fund to finance the purchase of workbooks in accordance with budgetary authorization.

B. Interfund Balances

Interfund receivables and payables at June 30, 2007, consist of the following individual balances, representing monies advanced to funds to be repaid when grant funds or other program revenues are received:

	Interfund Receivables	Interfund Payables
General Fund	\$114,795	\$0
Other Governmental Funds:		
Bond Retirement	0	6,395
Food Service	0	53,500
Uniform School Supply	0	2,877
Athletics	0	15,120
Title VI-B Idea	0	36,440
Drug Free Schools	0	463
Total Other Governmental Funds	0	114,795
Total All Funds	\$114,795	\$114,795

Note 19 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

Note 20 - Set-Aside Calculations

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of as of June 30, 2006	(\$261,426)	(\$2,995,000)	\$56,688
Current Year Set-Aside Requirement	254,275	254,275	0
Current Year Offsets	0	(129,998)	0
Qualifying Disbursements	<u>(181,317)</u>	<u>(360,544)</u>	0
Totals	<u>(\$188,468)</u>	<u>(\$3,231,267)</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$188,468)</u>	<u>\$0</u>	<u>\$56,688</u>
Set-Aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>	<u>\$56,688</u>

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

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**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Food Donation	10.550	N/A	\$	\$ 29,160		\$ 29,160
Nutrition Cluster:						
School Breakfast Program	10.553	05-PU-06 05-PU-07	29,187 80,072		29,187 80,072	
Total School Breakfast Program			<u>109,259</u>	<u>0</u>	<u>109,259</u>	<u>0</u>
National School Lunch Program	10.555	LL-P1-06 LL-P1-07 LL-P4-06 LL-P4-07	1,726 4,497 79,245 219,319		1,726 4,497 79,245 219,319	
Total National School Lunch Program			<u>304,787</u>	<u>0</u>	<u>304,787</u>	<u>0</u>
Total Nutrition Cluster			414,046	0	414,046	0
Fresh Fruit and Vegetable Program	10.582	VG-S1-06 VG-S1-07	8,707 36,584		8,707 36,584	
Total Fresh Fruit and Vegetable Program			<u>45,291</u>	<u>0</u>	<u>45,291</u>	<u>0</u>
Total United States Department of Agriculture			459,337	29,160	459,337	29,160
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-06 C1-S1-07	150,986 490,870		129,341 428,237	
Total Title I Grants to Local Educational Agencies			<u>641,856</u>	<u>0</u>	<u>557,578</u>	<u>0</u>
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-06 6B-SF-07	85,147 395,783		71,745 306,550	
Total Special Education - Grants to States			<u>480,930</u>	<u>0</u>	<u>378,295</u>	<u>0</u>
Special Education Preschool Grants	84.173	PG-S1-06 PG-S1-07	5,361 15,996		4,256 13,233	
Total Special Education Preschool Grants			<u>21,357</u>	<u>0</u>	<u>17,489</u>	<u>0</u>
Total Special Education Cluster			502,287	0	395,784	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-07	9,805		10,267	
State Grants for Innovative Education Programs	84.298	C2-S1-05 C2-S1-06 C2-S1-07	634 2,953		16 1,359 3,134	
Total State Grants for Innovative Education Programs			<u>3,587</u>	<u>0</u>	<u>4,509</u>	<u>0</u>
Education Technology State Grants	84.318	TJ-S1-06 TJ-S1-07	4,779 5,490		2,963 5,501	
Total Education Technology State Grants			<u>10,269</u>	<u>0</u>	<u>8,464</u>	<u>0</u>
Rural Education	84.358	RU-S1-07	30,966		25,300	
Improving Teacher Quality State Grants	84.367	TR-S1-06 TR-S1-07	30,271 140,263		19,409 124,866	
Total Improving Teacher Quality State Grants			<u>170,534</u>	<u>0</u>	<u>144,275</u>	<u>0</u>
Grants for State Assessments and Related Activity	84.369	N/A	0	0	4,371	0
Total United States Department of Education			1,369,304	0	1,150,548	0
Total Federal Awards Receipts and Expenditures			<u>\$ 1,828,641</u>	<u>\$ 29,160</u>	<u>\$ 1,609,885</u>	<u>\$ 29,160</u>

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

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School 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.

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School District's management in a separate letter dated February 13, 2008.

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www.auditor.state.oh.us

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the School District's management in a separate letter dated February 13, 2008.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 13, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Wellston City School District, Jackson County, Ohio (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Wellston City School District, Jackson County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 13, 2008.

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



Mary Taylor, CPA
Auditor of State

February 13, 2008

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster – CFDA # 10.553 and 10.555
(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**

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

WELLSTON CITY SCHOOL DISTRICT

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2008**