



Mary Taylor, CPA  
Auditor of State



**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District, Columbiana County, Ohio, as of June 30, 2006, 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 November 1, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying federal awards expenditure schedule is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the information 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

November 1, 2007

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2006  
Unaudited**

The discussion and analysis of the financial performance of Wellsville Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

In total, net assets increased \$634,073.

General revenues accounted for \$7,051,930, or 80 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,784,994 or 20 percent of total revenues of \$8,836,924.

The District's major funds included the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvement Capital Projects Fund. The General Fund had \$7,381,316 in revenues and other financing sources and \$6,740,094 in expenditures and other financing uses. The General Fund's balance increased \$641,222 from the prior fiscal year. The Bond Retirement Debt Service Fund had \$192,699 in revenues and \$167,898 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$24,801 from the prior fiscal year. The Permanent Improvement Capital Projects Fund had \$192,772 in revenues and \$174,782 in expenditures. The Permanent Improvement Capital Projects Fund's balance increased \$17,990 from the prior fiscal year.

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

**Using the Basic Financial Statements**

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

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

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

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

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

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

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

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

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

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

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

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

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

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to fiscal year 2005.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

**Table 1  
Net Assets  
Governmental Activities**

	<b>2006</b>	<b>2005</b>
<b><u>Assets:</u></b>		
Current and Other Assets	\$2,796,258	\$2,119,038
Capital Assets, Net	7,956,718	8,297,333
Total Assets	<u>10,752,976</u>	<u>10,416,371</u>
<b><u>Liabilities:</u></b>		
Current and Other Liabilities	1,998,639	2,183,624
Long-Term Liabilities	2,343,899	2,365,214
Total Liabilities	<u>4,342,538</u>	<u>4,548,838</u>
<b><u>Net Assets:</u></b>		
Invested in Capital Assets, Net of Related Debt	6,154,251	6,509,247
Restricted	1,177,231	1,013,795
Unrestricted	(921,044)	(1,655,509)
Total	<u>\$6,410,438</u>	<u>\$5,867,533</u>

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

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

	<b>2006</b>	<b>2005</b>
<b><u>Revenues:</u></b>		
Program Revenues:		
Charges for Services and Sales	\$703,317	\$269,132
Operating Grants, Contributions and Interest	1,081,677	1,133,558
Capital Grants	8,832	
Total Program Revenues	<u>1,793,826</u>	<u>1,402,690</u>
General Revenues:		
Property Taxes	1,291,972	1,276,710
Grants and Entitlements	5,374,387	5,203,237
Investment Earnings	44,495	14,514
Gifts and Donations	5,867	16,924
Miscellaneous	335,209	127,366
Total General Revenues	<u>7,051,930</u>	<u>6,638,751</u>
Total Revenues	<u>8,745,756</u>	<u>8,041,441</u>
<b><u>Expenses:</u></b>		
Instruction	4,977,730	4,917,997
Support Services:		
Pupils	396,775	339,028
Instructional Staff	269,851	448,079
Board of Education	6,734	7,370
Administration	778,674	882,559
Fiscal	310,243	226,077
Operation and Maintenance of Plant	720,005	962,891

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

Pupil Transportation	139,931	120,746
Central	11,225	
Non-Instructional	322,829	304,155
Extracurricular Activities	248,936	239,909
Capital Outlay	14,385	517,285
Interest and Fiscal Charges	5,533	92,002
Total Expenses	8,202,851	9,058,098
Change in Net Assets	\$542,905	(\$1,016,657)

Program revenue grant monies increased from the prior year. The change with other revenues and expenses were insignificant.

**Governmental Activities**

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

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
Instruction	\$4,977,730	\$3,845,294	\$4,917,997	\$4,173,237
Support Services:				
Pupils	396,775	396,775	339,028	339,028
Instructional Staff	269,851	82,707	448,079	235,098
Board of Education	6,734	6,734	7,370	7,370
Administration	778,674	750,802	882,559	833,260
Fiscal	310,243	310,243	226,077	226,077
Operation and Maintenance of Plant	720,005	701,990	962,891	957,891
Pupil Transportation	139,931	139,931	120,746	120,746
Central	11,225	7,025		
Non-Instructional	322,829	(16,146)	304,155	(10,518)
Extracurricular Activities	248,936	172,584	239,909	163,932
Capital Outlay	14,385	5,553	517,285	517,285
Interest and Fiscal Charges	5,533	5,533	92,002	92,002
Total Expenses	\$8,202,851	\$6,409,025	\$9,058,098	\$7,655,408

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 77 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 78 percent. The remaining 22 percent is derived from tuition and fees, specific grants, and donations.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvement Capital Projects Fund. Total governmental funds had revenues of \$9,445,507 and expenditures of \$85,583,070. The net positive change of \$862,437 in fund balance for the year indicates that the District was able to meet current costs.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

There were significant changes between the original and the final budget. Final expenditures were budgeted at \$7,657,081 while actual expenditures were \$6,813,087.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the District had \$7,956,718 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

**Debt**

At June 30, 2006, the District had \$1,330,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-year period, with final maturity on December 1, 2020. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2006, the District's overall legal debt margin was \$2,935,185, with an un-voted debt margin of \$47,391.

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

**Current Issues**

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

The District is currently operating in the first year of the state biennium budget. 12 percent of District revenue sources are from local funds, 80 percent is from state funds and the remaining 8 percent is from federal funds. The total expenditure per pupil was calculated at \$9,311.

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

**Contacting the District's Financial Management**

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Statement of Net Assets  
June 30, 2006**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,558,667
Materials and Supplies Inventory	5,665
Intergovernmental Receivable	49,418
Prepaid Items	2,896
Taxes Receivable	1,179,612
Non-Depreciable Capital Assets	291,078
Depreciable Capital Assets, net	7,665,640
Total Assets	<u>10,752,976</u>
<b>LIABILITIES:</b>	
Accounts Payable	32,566
Accrued Wages and Benefits	656,903
Intergovernmental Payable	191,838
Matured Compensated Absences Payable	56,342
Deferred Revenue	1,060,990
Long-Term Liabilities:	
Due Within One Year	210,619
Due in More Than One Year	2,133,280
Total Liabilities	<u>4,342,538</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	6,154,251
Restricted for Debt Service	257,616
Restricted for Capital Outlay	476,203
Restricted for Other Purposes	443,412
Unrestricted	(921,044)
Total Net Assets	<u><u>\$6,410,438</u></u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2006**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$3,998,456	\$491,469	\$437,249	(\$3,069,738)
Special	830,643		203,718	(626,925)
Vocational	148,631			(148,631)
Support Services:				
Pupils	396,775			(396,775)
Instructional Staff	269,851		187,144	(82,707)
Board of Education	6,734			(6,734)
Administration	778,674	24,672	3,200	(750,802)
Fiscal	310,243			(310,243)
Operation and Maintenance of Plant	720,005	831	17,184	(701,990)
Pupil Transportation	139,931			(139,931)
Central	11,225		4,200	(7,025)
Operation of Non-Instructional Services	322,829	109,993	228,982	16,146
Extracurricular Activities	248,936	76,352		(172,584)
Capital Outlay	14,385			(5,553)
Debt Service:			\$8,832	
Interest and Fiscal Charges	5,533			(5,533)
Totals	<u>\$8,202,851</u>	<u>\$703,317</u>	<u>\$1,081,677</u>	<u>\$8,832</u>
				<u>(6,409,025)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				955,388
Property Taxes, Levied for Capital Outlay				144,191
Property Taxes, Levied for Debt Service				173,634
Property Taxes, Levied for Other				18,759
Grants and Entitlements not Restricted to Specific Programs				5,374,387
Gifts and Donations				5,867
Investment Earnings				44,495
Miscellaneous				235,209
Total General Revenues				<u>6,951,930</u>
Change in Net Assets				542,905
Net Assets Beginning of Year				<u>5,867,533</u>
Net Assets End of Year				<u>\$6,410,438</u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents		\$240,811	\$283,341	\$753,706	\$1,277,858
Materials and Supplies Inventory				5,665	5,665
Interfund Receivable	\$28,115		6,119		34,234
Intergovernmental Receivable				49,418	49,418
Prepaid Items	2,896				2,896
Taxes Receivable	875,777	154,307	132,349	17,179	1,179,612
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	280,809				280,809
<b>Total Assets</b>	<u>1,187,597</u>	<u>395,118</u>	<u>421,809</u>	<u>825,968</u>	<u>2,830,492</u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	30,537			2,029	32,566
Accrued Wages and Benefits	547,293		1,097	108,513	656,903
Interfund Payable	6,119			28,115	34,234
Intergovernmental Payable	141,183			50,655	191,838
Matured Compensated Absences Payable	53,022			3,320	56,342
Deferred Revenue	791,864	138,035	119,456	34,510	1,083,865
	<u>1,570,018</u>	<u>138,035</u>	<u>120,553</u>	<u>227,142</u>	<u>2,055,748</u>
<b>Fund Balances</b>					
Reserved:					
Reserved for Encumbrances			72,831	5,907	78,738
Reserved for Prepaid Items	2,896				2,896
Reserved for Advances	19,845				19,845
Reserved for Property Taxes	83,913	16,272	12,893	1,686	114,764
Reserved for Textbooks and Instructional Materials	125,121				125,121
Reserved for Capital Improvements	85,121				85,121
Reserved for Budget Stabilization	70,567				70,567
Unreserved, Undesignated, Reported in:					
General Fund	(769,884)				(769,884)
Special Revenue Funds				417,504	417,504
Debt Service Funds		240,811			240,811
Capital Projects Funds			215,532	173,729	389,261
<b>Total Fund Balances</b>	<u>(382,421)</u>	<u>257,083</u>	<u>301,256</u>	<u>598,826</u>	<u>774,744</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$1,187,597</u>	<u>\$395,118</u>	<u>\$421,809</u>	<u>\$825,968</u>	<u>\$2,830,492</u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006**

Total Governmental Fund Balances		\$774,744
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		7,956,718
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		22,875
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Capital Leases Payable	(72,467)	
General Obligation Bonds Payable	(1,730,000)	
Compensated Absences Payable	(541,432)	
	<u>                    </u>	(2,343,899)
Net Assets of Governmental Activities		<u><u>\$6,410,438</u></u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>					
Property and Other Local Taxes	\$996,978	\$181,609	\$150,942	\$19,640	\$1,349,169
Intergovernmental	5,352,759	11,090	9,330	1,133,889	6,507,068
Interest	44,495				44,495
Tuition and Fees	490,302			103	490,405
Rent	831				831
Extracurricular Activities	1,167			101,024	102,191
Gifts and Donations	2,149			3,718	5,867
Customer Sales and Services				109,890	109,890
Miscellaneous	19,375		32,500	283,334	335,209
Total Revenues	<u>6,908,056</u>	<u>192,699</u>	<u>192,772</u>	<u>1,651,598</u>	<u>8,945,125</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	3,238,810			408,327	3,647,137
Special	672,954			144,700	817,654
Vocational	154,702				154,702
Support Services:					
Pupils	320,053			76,722	396,775
Instructional Staff	94,786			229,772	324,558
Board of Education	6,888				6,888
Administration	707,915			61,341	769,256
Fiscal	294,516	3,444	2,901	11,397	312,258
Operation and Maintenance of Plant	576,802		127,091	29,903	733,796
Pupil Transportation	96,566		30,405	1,929	128,900
Central				11,225	11,225
Operation of Non-Instructional Services				325,066	325,066
Extracurricular Activities	148,190			100,746	248,936
Capital Outlay			14,385		14,385
Debt Service:					
Principal	415,619	107,115			522,734
Interest	11,079	57,339			68,418
Total Expenditures	<u>6,738,880</u>	<u>167,898</u>	<u>174,782</u>	<u>1,401,128</u>	<u>8,482,688</u>
Excess of Revenues Over (Under) Expenditures	<u>169,176</u>	<u>24,801</u>	<u>17,990</u>	<u>250,470</u>	<u>462,437</u>
<b>OTHER FINANCING SOURCES AND USES:</b>					
Transfers In	73,260			27,122	100,382
Notes Issued	400,000				400,000
Transfers Out	(1,214)			(99,168)	(100,382)
Total Other Financing Sources and Uses	<u>472,046</u>	<u>-</u>	<u>-</u>	<u>(72,046)</u>	<u>400,000</u>
Net Change in Fund Balances	641,222	24,801	17,990	178,424	862,437
Fund Balance (Deficit) at Beginning of Year	(1,023,643)	232,282	283,266	420,402	(87,693)
Fund Balance (Deficit) at End of Year	<u>(\$382,421)</u>	<u>\$257,083</u>	<u>\$301,256</u>	<u>\$598,826</u>	<u>\$774,744</u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement Activities  
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds		\$862,437
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.</p>		
Capital Outlay - Depreciable Capital Assets	\$77,702	
Depreciation	<u>(377,572)</u>	(299,870)
<p>The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.</p>		
Gain (Loss) on Disposal of Capital Assets		(40,745)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	(42,172)	
Delinquent Property Taxes	<u>(57,197)</u>	(99,369)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.</p>		
		585,619
<p>The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets.</p>		
Proceeds from general obligation bonds	(400,000)	
Proceeds from tax anticipation notes	<u>(100,000)</u>	(500,000)
<p>Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:</p>		
Intergovernmental Payable	99,137	
Compensated Absences Payable	<u>(\$64,304)</u>	34,833
Change in Net Assets of Governmental Activities		<u><u>\$542,905</u></u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$921,171	\$1,000,000	\$939,465	(\$60,535)
Intergovernmental	4,770,556	6,197,014	5,352,759	(844,255)
Interest	8,413	25,000	24,473	(527)
Tuition and Fees		500,000	490,302	(9,698)
Rent		1,000	831	(169)
Extracurricular Activities		2,000	1,167	(833)
Gifts and Donations	4,050	2,200	2,149	(51)
Miscellaneous	5,810	1,000	727	(273)
<b>Total Revenues</b>	<u>5,710,000</u>	<u>7,728,214</u>	<u>6,811,873</u>	<u>(916,341)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	3,447,223	3,447,223	3,249,931	197,292
Special	354,141	800,000	715,384	84,616
Vocational	137,390	200,000	155,557	44,443
Support Services:				
Pupils	155,218	400,000	341,055	58,945
Instructional Staff		120,000	92,697	27,303
Board of Education		20,000	6,718	13,282
Administration	388,806	759,438	686,726	72,712
Fiscal	89,962	300,000	276,262	23,738
Operation and Maintenance of Plant	870,285	870,285	612,731	257,554
Pupil Transportation	34,055	118,921	97,722	21,199
Extracurricular Activities		200,000	147,635	52,365
Principal		400,000	400,000	-
Interest		20,000	11,079	8,921
<b>Total Expenditures</b>	<u>5,477,080</u>	<u>7,655,867</u>	<u>6,793,497</u>	<u>862,370</u>
Excess of Revenues Over (Under) Expenditures	<u>232,920</u>	<u>72,347</u>	<u>18,376</u>	<u>(53,971)</u>
Other Financing Sources and Uses:				
Transfers In		75,000	73,260	(1,740)
Notes Issued		400,000	400,000	-
Proceeds from Sale of Capital Assets		2,500	2,500	-
Refund of Prior Year Expenditures		20,000	16,187	(3,813)
Transfers Out		(1,214)	(1,214)	-
Advances Out			(8,269)	(8,269)
<b>Total Other Financing Sources and Uses</b>	<u>-</u>	<u>496,286</u>	<u>482,464</u>	<u>(13,822)</u>
Net Change in Fund Balances	232,920	568,633	500,840	(67,793)
Fund Balance (Deficit) at Beginning of Year	(234,376)	(234,376)	(234,376)	-
Prior Year Encumbrances Appropriated	30,974	30,974	30,974	-
<b>Fund Balance (Deficit) at End of Year</b>	<u>\$29,518</u>	<u>\$365,231</u>	<u>\$297,438</u>	<u>(\$67,793)</u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006**

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$10,770	\$29,916
Total Assets	10,770	29,916
<b>Liabilities</b>		
Current Liabilities:		
Due to Students	-	29,916
Total Liabilities	-	\$29,916
<b>Net Assets</b>		
Held in Trust for Scholarships	10,770	-
Total Net Assets	\$10,770	-

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006**

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

See Accompanying Notes to the Basic Financial Statements

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**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Wellsville Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Wellsville Local School District is a local school district as defined by Section 3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 36 non-certified and 70 certified full-time teaching personnel who provide services to 949 students and other community members.

**The Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with two organizations, which are defined as a jointly governed organization and an insurance purchasing pool. These organizations include the Columbiana County Career Center and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

Government-Wide Financial Statements

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

Fund Financial Statements

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

**B. Fund Accounting**

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

Governmental Funds

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

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

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

Permanent Improvement Fund - The Permanent Improvement Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

Fiduciary Funds

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

**C. Measurement Focus**

Government-Wide Financial Statements

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

Fund Financial Statements

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

**D. Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

**E. Budgetary Process**

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on June 30, 2006.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006, amounted to \$44,495.

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

**G. Inventory**

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**H. Restricted Assets**

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

**I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is two thousand five hundred dollars. The District 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 capitalized.

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

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

**J. Interfund Balances**

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

**K. Compensated Absences**

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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

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

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**M. Net Assets**

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

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

**N. Fund Balance Reserves and Designations**

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

**O. Interfund Assets/Liabilities**

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

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

**P. Estimates**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

**3. COMPLIANCE**

The District made expenditures that were not certified or recorded in accordance with section 5705.41(D), Ohio Revised Code, which provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING**

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

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

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

<b>Net Change in Fund Balance Major Governmental Fund</b>	
GAAP Basis	\$641,222
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	31,026
Accrued FY 2006, Not Yet Received in Cash	(127,209)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(820,596)
Accrued FY 2006, Not Yet Paid in Cash	785,325
Advances Net	(5,769)
Encumbrances Outstanding at Year End (Budget Basis)	(3,159)
Budget Basis	\$500,840

**5. DEPOSITS AND INVESTMENTS**

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS – (Continued)**

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 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 District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); 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.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**5. DEPOSITS AND INVESTMENTS – (Continued)**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,006,082 of the District's bank balance of \$1,106,082 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The 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 District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with 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, 2006, the District had the following investments. All investments are in an internal investment pool.

	<b>Carrying and Fair Value</b>	<b>Maturity</b>
Federal Home Loan Bank Bond	\$498,280	01/17/07
STAR Ohio	6,843	Average
Total Investments	\$505,123	

The District has no investment policy that addresses interest rate risk. 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 District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk - The Federal Home Loan Bank Bond carries a rating of Aaa by Moody's and AAA by Standard and Poor's. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 Federal Home Loan Bank Bond is exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**6. PROPERTY TAXES**

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time.

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Columbiana County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes, outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. DEPOSITS AND INVESTMENTS – (Continued)**

The amount available as an advance at June 30, 2006, was \$83,913 in the General Fund, \$1,686 in Special Revenue Fund, \$16,272 in the Debt Service Fund, and \$12,893 in the Capital Projects Fund. The amount available as an advance at June 30, 2005, was \$26,400 in the General Fund, \$542 in Special Revenue Fund, \$5,135 in the Debt Service Fund, and \$4,149 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	<b>2005 Second- Half Collections</b>		<b>2006 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Residential/Agricultural	\$32,088,860	74%	\$36,041,440	76%
Commercial/Industrial	4,826,380	11%	5,141,770	11%
Public Utility	3,377,770	8%	3,357,420	7%
Tangible Personal	2,934,960	7%	2,850,310	6%
Total Assessed Value	<u>\$43,227,970</u>	<u>100%</u>	<u>\$47,390,940</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.69		\$42.69	

**7. RECEIVABLES**

Receivables at June 30, 2006, consisted of property, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amount</b>
Governmental Activities	
Food Service	\$30,401
Title VI-B	17,630
Title VI	1,387
Total Intergovernmental Receivables	<u>\$49,418</u>

**WELLSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/06</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$291,078			\$291,078
Total Nondepreciable Capital Assets	291,078			291,078
Depreciable Capital Assets				
Land Improvements	766,792	\$13,405	\$32,459	747,738
Buildings and Building Improvements	10,734,084	64,297	394,495	10,403,886
Furniture, Fixtures, and Equipment	695,178		94,101	601,077
Vehicles	292,637			292,637
Books	471,260		17,659	453,601
Total Depreciable Capital Assets	12,959,951	77,702	538,714	12,498,939
Less Accumulated Depreciation				
Land Improvements	332,814	32,692	25,185	340,321
Buildings and Building Improvements	3,391,592	291,637	361,263	3,321,966
Furniture, Fixtures, and Equipment	488,764	40,452	93,862	435,354
Vehicles	269,266	12,791		282,057
Books	471,260		17,659	453,601
Total Accumulated Depreciation	4,953,696	377,572	497,969	4,833,299
Depreciable Capital Assets, Net	8,006,255	(299,870)	40,745	7,665,640
Governmental Activities Capital Assets, Net	\$8,297,333	(\$299,870)	\$40,745	\$7,956,718

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$289,131
Support Services:	
Operation and Maintenance of Plant	63,893
Pupil Transportation	12,791
Non-Instructional Services	11,757
Total Depreciation Expense	<u>\$377,572</u>

**9. RESTRICTED ASSETS**

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

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$280,809

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006 the District's insurance coverage through Wausau Insurance Corporation was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents	\$1,000	\$28,871,048
Automobile Liability	100	1,000,000
Uninsured Motorists		1,000,000
General Liability		
Per occurrence		1,000,000
Per year		3,000,000

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

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**11. DEFINED PENSION BENEFIT PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on the SERS' website, [www.ohsers.org](http://www.ohsers.org), under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$145,988, \$158,427, and \$153,112, respectively; 53 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The unpaid contributions for fiscal year 2006 are \$77,336.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**11. DEFINED PENSION BENEFIT PLANS – (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing 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, 2006, plan members are required to contribute 10 percent of their annual covered salaries. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$466,950, \$597,643, and \$377,706, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$75,160.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**12. POSTEMPLOYMENT BENEFITS**

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

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, and June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, 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 the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants eligible to receive benefits is 58,123.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .245, then adding the surcharge due as of June 30, 2005, as certified to your district by SERS.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**13. COMPENSATED ABSENCES**

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for classified employees and 300 days for certificated employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 64 days for 2006, 66 days for 2007, and 68 days for 2008.

**14. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	<b>Balance at July 1, 2005</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2006</b>	<b>Due Within One Year</b>
School Improvement Bonds	\$1,385,000		\$55,000	\$1,330,000	\$60,000
Energy Conservation Loan	315,000		15,000	300,000	20,000
Bond Anticipation Note	100,000	\$100,000	100,000	100,000	100,000
Tax Anticipation Note		400,000	400,000		
Capital Leases	88,086		15,619	72,467	15,619
Compensated Absences	447,128	541,432	447,128	541,432	15,000
<b>Total Long-Term Obligations</b>	<b>\$2,365,214</b>	<b>\$1,041,432</b>	<b>\$1,032,747</b>	<b>\$2,343,899</b>	<b>\$210,619</b>

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

Energy Conservation Loan - In August 2004, the District issued general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a fifteen-year period with final maturity during fiscal year 2020, with an interest rate of 3.0%. The loan will be retired from the Debt Service Fund.

Bond Anticipation Note - In September 2005, the District issued Bond Anticipation Notes for the purpose of energy conservation improvements. The notes were issued for one-year with final maturity during fiscal year 2007, with an interest rate of 5%. The loan will be retired from the Debt Service Fund.

Tax Anticipation Note - In July 2005, the District issued Tax Anticipation Notes in anticipation of the collection for current property tax revenues to be received by the District for the fiscal year ending June 30, 2006. The notes were issued with a final maturity date June 30, 2006, with an interest rate of 3%. The notes were retired from the Debt Service Fund.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**14. LONG-TERM OBLIGATIONS – (Continued)**

Capital leases will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2006, are as follows:

<u>Year Ending June 30, 2006</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$180,000	\$84,771	\$264,771
2008	85,000	79,881	164,881
2009	85,000	77,220	162,220
2010	90,000	74,221	164,221
2011	95,000	70,913	165,913
2012-2016	540,000	290,659	830,659
2017-2021	655,000	133,077	788,077
Total	<u>\$1,730,000</u>	<u>\$810,742</u>	<u>\$2,550,742</u>

**15. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2006, only the unspent portion of certain workers' compensation refunds is required to be set-aside at fiscal year end.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2005	\$48,124	\$112,984	\$70,567
Current Year Set-aside Requirement	143,517	143,517	
Qualifying Disbursements	(66,520)	(171,380)	
Total	<u>\$125,121</u>	<u>\$85,121</u>	<u>\$70,567</u>
Cash Balance Carried Forward to FY 2007	<u>\$125,121</u>	<u>\$85,121</u>	<u>\$70,567</u>
Total Restricted Assets	<u>\$125,121</u>	<u>\$85,121</u>	<u>\$70,567</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. S.B. 345 places special restrictions on the use of Bureau of Workers' Compensation (BWC) rebate money remaining in the budget stabilization reserve as of April 10, 2001, which is \$70,567 at June 30, 2006. Other non-BWC monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the General Fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

**WELLSVILLE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**16. JOINTLY GOVERNED ORGANIZATIONS**

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

**17. GROUP PURCHASING POOLS**

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

**18. SCHOOL FUNDING DECISION**

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

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

**19. CONTINGENCIES**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**B. Litigation**

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

WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non Cash Expenditures
<b>U.S. Department of Agriculture</b>						
Food Distribution Program				\$113,288		\$113,288
Child Nutrition Cluster:						
National School Breakfast Program	05-PU	10.553	\$46,717		\$46,717	
National School Lunch Program	LL-P4	10.555	181,551		181,551	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>228,268</u>	<u>\$113,288</u>	<u>228,268</u>	<u>\$113,288</u>
<b>U.S. Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2004 C1-S1-2005 C1-S1-2006	84.010	41,905 211,420 <u>253,325</u>		1,989 30,304 <u>215,266</u>	
Total ESEA Title I					<u>247,559</u>	
Special Education Part B-IDEA	6BSF-2005 6BSF-2006	84.027	59,826 <u>169,514</u> 229,340		58,377 <u>160,780</u> 219,157	
Total Special Education Grant						
Safe & Drug Free School Grant Title IV-A	DR-S1-2004 DR-S1-2005 DR-S1-2006	84.186	1,843 <u>7,789</u> 9,632		375 <u>2,695</u> 11,353	
Total Safe & Drug Free School Grant						
Innovative Educational Program Strategies Title V	C2-S1-2005 C2-S1-2006	84.298	3,364 <u>845</u> 4,209		1,427 <u>867</u> 2,294	
Total Innovative Educational Program Strategies						
Education Technology Grant Title II-D	TJ-S1-2005 TJ-S1-2006	84.318	135 <u>5,415</u> 5,550		6,899 <u>535</u> 7,434	
Total Education Technology Grant						
Title II A Improving Teacher Quality Program	TR-S1-2005 TR-S1-2006	84.367	17,400 <u>59,071</u> 76,471		16,246 <u>63,472</u> 79,718	
Total Title II A Program						
Total Department of Education			<u>578,527</u>		<u>567,515</u>	
<b>Total Federal Awards</b>			<b><u>\$806,795</u></b>	<b><u>\$113,288</u></b>	<b><u>\$795,783</u></b>	<b><u>\$113,288</u></b>

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

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 1, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instance of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002. In a separate letter to the District's management dated November 1, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

November 1, 2007



# 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

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

To the Board of Education:

### Compliance

We have audited the compliance of Wellsville Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 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 District's compliance with those requirements.

In our opinion, Wellsville Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503-1293  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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.

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

**Mary Taylor, CPA**  
Auditor of State

November 1, 2007

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

**Finding Number 2006-001**

**Noncompliance Citation**

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

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

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

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

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

The District did not properly certify or record the amount against the applicable appropriation accounts for 35% of the tested expenditures during fiscal year 2006. The District did not properly utilize the certification exceptions described above for those expenditures lacking prior certification.

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

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

**Finding Number 2006-002**

**Noncompliance Citation**

**Ohio Revised Code Section 5705.41 (B)** prohibits a subdivision from making expenditure unless it has been properly appropriated.

Total expenditures plus encumbrances exceeded total appropriations in the Permanent Improvement Fund by \$72,204 or 29% of total expenditures.

Failure to limit expenditures to appropriated levels could result in overspending and/or deficit balances. The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Officials' Response**

We did not receive a response from officials to the findings report above.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**WELLSVILLE LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2005-001	Ohio Revised Code Section 5705.41(D) Disbursements were not properly certified.	No	Cited again as Finding Number 2006-001.
2005-002	Ohio Revised Code Section 5705.10 The General Fund had a deficit cash balance.	Yes	Corrected



**Mary Taylor, CPA**  
Auditor of State

WELLSVILLE LOCAL SCHOOL DISTRICT

COLUMBIANA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 6, 2008