



**Auditor of State
Betty Montgomery**

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	9
Statement of Activities.....	10
Balance Sheet - Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) – General Fund.....	15
Statement of Fiduciary Net Assets – Fiduciary Fund.....	16
Statement of Changes in Fiduciary Net Assets	17
Notes to the Basic Financial Statements	19
Federal Award Expenditures Schedule.....	39
Notes to the Federal Award Expenditures Schedule	40
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41
Independent Accountants' Report on Compliance with Requirements Applicable to Its Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133.....	43
Schedule of Findings.....	45
Schedule of Prior Audit Findings.....	48

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2005, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District, Columbiana County, Ohio, as of June 30, 2005, and the respective changes in financial position 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 May 25, 2006, 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.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 25, 2006

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

The discussion and analysis of the Wellsville Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

In total, net assets decreased \$1,016,657.

General revenues accounted for \$6,638,751, or 83 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,402,690 or 17 percent of total revenues of \$8,041,441.

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 \$6,286,840 in revenues and other financing sources and \$6,495,923 in expenditures. The General Fund's balance decreased \$209,083 from the prior fiscal year. The Bond Retirement Debt Service Fund had \$175,495 in revenues and \$162,262 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$13,233 from the prior fiscal year. The Permanent Improvement Capital Projects Fund had \$576,570 in revenues and other financing sources and \$673,658 in expenditures. The Permanent Improvement Capital Projects Fund's balance decreased \$97,088 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 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
(Continued)**

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.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004.

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$2,119,038	\$2,347,353
Capital Assets, Net	8,297,333	8,702,035
Total Assets	<u>10,416,371</u>	<u>11,049,388</u>
<u>Liabilities:</u>		
Current and Other Liabilities	2,183,624	2,197,236
Long-Term Liabilities	2,365,214	1,967,962
Total Liabilities	<u>4,548,838</u>	<u>4,165,198</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	6,509,247	7,262,035
Restricted	1,013,795	1,060,551
Unrestricted	(1,655,509)	(1,438,396)
Total	<u>\$5,867,533</u>	<u>\$6,884,190</u>

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004. The decrease in capital assets was attributed to depreciation expense. During the fiscal year, the District obtained an energy conservation loan and entered into a capital lease agreement. The increases were attributed to the increase in long-term liabilities.

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$269,132	\$223,509
Operating Grants, Contributions and Interest	1,133,558	928,020
Capital Grants and Contributions		21,625
Total Program Revenues	<u>1,402,690</u>	<u>1,173,154</u>
General Revenues:		
Property Taxes	1,276,710	1,226,268
Grants and Entitlements	5,203,237	5,246,478
Investment Earnings	14,514	9,368
Gifts and Donations	16,924	13,819
Miscellaneous	127,366	182,795
Total General Revenues	<u>6,638,751</u>	<u>6,678,728</u>
Total Revenues	<u>8,041,441</u>	<u>7,851,882</u>

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
(Continued)**

<u>Expenses:</u>		
Instruction	4,917,997	5,307,637
Support Services:		
Pupils	339,028	335,098
Instructional Staff	448,079	503,393
Board of Education	7,370	6,179
Administration	882,559	854,501
Fiscal	226,077	224,243
Operation and Maintenance of Plant	962,891	953,753
Pupil Transportation	120,746	142,375
Non-Instructional	304,155	345,328
Extracurricular Activities	239,909	240,553
Capital Outlay	517,285	59,333
Interest and Fiscal Charges	92,002	81,145
Total Expenses	<u>9,058,098</u>	<u>9,053,538</u>
Change in Net Assets	<u>(\$1,016,657)</u>	<u>(\$1,201,656)</u>

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**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$4,917,997	\$4,173,237	\$5,307,637	\$4,386,286
Support Services:				
Pupils	339,028	339,028	335,098	325,636
Instructional Staff	448,079	235,098	503,393	497,478
Board of Education	7,370	7,370	6,179	6,179
Administration	882,559	833,260	854,501	854,501
Fiscal	226,077	226,077	224,243	224,243
Operation and Maintenance of Plant	962,891	957,891	953,753	932,128
Pupil Transportation	120,746	120,746	142,375	142,375
Non-Instructional	304,155	(10,518)	345,328	231,607
Extracurricular Activities	239,909	163,932	240,553	139,473
Capital Outlay	517,285	517,285	59,333	59,333
Interest and Fiscal Charges	92,002	92,002	81,145	81,145
Total Expenses	<u>\$9,058,098</u>	<u>\$7,655,408</u>	<u>\$9,053,538</u>	<u>\$7,880,384</u>

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 85 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 84 percent. The remaining 16 percent are derived from tuition and fees, specific grants, and donations.

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 \$8,507,808 and expenditures of \$8,791,851. The net negative change of \$284,043 in fund balance for the year indicates that the District had difficulty in meeting 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 2005, the District amended its General Fund budget as needed.

There were no significant changes between the original and the final budget. Final expenditures were budgeted at \$6,288,319 while actual expenditures were \$6,466,243.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$8,297,333 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, 2005, the District had \$1,800,000 in school improvement general obligation bonds for building improvements and bond anticipation notes. The bonds were issued for a twenty-year period, with final maturity on December 1, 2020. The bond anticipation note matured in September 2005. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2005, the District's overall legal debt margin was \$2,190,517, with an un-voted debt margin of \$43,228.

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

Current Issues

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

The District is currently operating in the first year of the state biennium budget. 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.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
(Continued)**

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.

Contacting the District's Financial Management

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Net Assets
June 30, 2005**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	566,435
Materials and Supplies Inventory		3,910
Accrued Interest Receivable		4,587
Accounts Receivable		11,224
Intergovernmental Receivable		162,783
Prepaid Items		6,030
Taxes Receivable		1,132,394
Restricted Assets		
Equity in Pooled Cash and Cash Equivalents		231,675
Non-Depreciable Capital Assets		291,078
Depreciable Capital Assets, net		8,006,255
Total Assets		10,416,371
LIABILITIES:		
Accounts Payable		128,641
Accrued Wages and Benefits		764,981
Intergovernmental Payable		208,821
Matured Compensated Absences Payable		46,068
Deferred Revenue		1,035,113
Long-Term Liabilities:		
Due Within One Year		185,619
Due in More Than One Year		2,179,595
Total Liabilities		4,548,838
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		6,509,247
Restricted for Debt Service		240,790
Restricted for Capital Outlay		453,948
Restricted for Other Purposes		319,057
Unrestricted		(1,655,509)
Total Net Assets	\$	5,867,533

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 3,866,502	\$ 63,319	\$ 428,090	\$ (3,375,093)
Special	857,037		253,351	(603,686)
Vocational	194,458			(194,458)
Support Services:				
Pupils	339,028			(339,028)
Instructional Staff	448,079		212,981	(235,098)
Board of Education	7,370			(7,370)
Administration	882,559	37,299	12,000	(833,260)
Fiscal	226,077			(226,077)
Operation and Maintenance of Plant	962,891		5,000	(957,891)
Pupil Transportation	120,746			(120,746)
Operation of Non-Instructional Services	304,155	92,537	222,136	10,518
Extracurricular Activities	239,909	75,977		(163,932)
Capital Outlay	517,285			(517,285)
Debt Service:				
Interest and Fiscal Charges	92,002			(92,002)
Totals	\$ 9,058,098	\$ 269,132	\$ 1,133,558	\$ (7,655,408)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				944,532
Property Taxes, Levied for Capital Outlay				143,978
Property Taxes, Levied for Debt Service				169,142
Property Taxes, Levied for Other				19,058
Grants and Entitlements not Restricted to Specific Programs				5,203,237
Gifts and Donations				16,924
Investment Earnings				14,514
Miscellaneous				127,366
Total General Revenues				6,638,751
Change in Net Assets				(1,016,657)
Net Assets Beginning of Year				6,884,190
Net Assets End of Year				\$ 5,867,533

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ -	21,261	\$ 545,174	\$ 566,435
Materials and Supplies Inventory				3,910	3,910
Accrued Interest Receivable	4,587				4,587
Accounts Receivable	46			11,178	11,224
Interfund Receivable	19,845	227,147	258,453		505,445
Intergovernmental Receivable				162,783	162,783
Prepaid Items	5,442			588	6,030
Taxes Receivable	909,285	116,508	88,688	17,913	1,132,394
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	231,675				231,675
Total Assets	<u>\$ 1,170,880</u>	<u>\$ 343,655</u>	<u>\$ 368,402</u>	<u>\$ 741,546</u>	<u>\$ 2,624,483</u>
Liabilities					
Current Liabilities:					
Accounts Payable	\$ 100,883			\$ 27,758	\$ 128,641
Accrued Wages and Benefits	620,447		597	143,937	764,981
Interfund Payable	485,600			19,845	505,445
Intergovernmental Payable	94,027			15,657	109,684
Matured Compensated Absences Payable	10,681			35,387	46,068
Deferred Revenue	882,885	111,373	84,539	78,560	1,157,357
Total Liabilities	<u>2,194,523</u>	<u>111,373</u>	<u>85,136</u>	<u>321,144</u>	<u>2,712,176</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances				5,341	5,341
Reserved for Prepaid Items	5,442			588	6,030
Reserved for Advances	19,845				19,845
Reserved for Property Taxes	26,400	5,135	4,149	542	36,226
Reserved for Textbooks and Instructional Materials	48,124				48,124
Reserved for Capital Improvements	112,984				112,984
Reserved for Budget Stabilization	70,567				70,567
Unreserved, Undesignated, Reported in:					
General Fund	(1,307,005)				(1,307,005)
Special Revenue Funds				250,456	250,456
Debt Service Funds		227,147			227,147
Capital Projects Funds			279,117	163,475	442,592
Total Fund Balances	<u>(1,023,643)</u>	<u>232,282</u>	<u>283,266</u>	<u>420,402</u>	<u>(87,693)</u>
Total Liabilities and Fund Balances	<u>\$ 1,170,880</u>	<u>\$ 343,655</u>	<u>\$ 368,402</u>	<u>\$ 741,546</u>	<u>\$ 2,624,483</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, 2005**

Total Governmental Fund Balances	\$	(87,693)
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,297,333
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		122,244
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(99,137)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Capital Leases Payable	\$	(88,086)
General Obligation Bonds Payable		(1,800,000)
Compensated Absences Payable		(477,128)
		(2,365,214)
Net Assets of Governmental Activities	\$	5,867,533

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, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 922,728	\$ 164,468	\$ 140,254	\$ 18,585	\$ 1,246,035
Intergovernmental	5,189,723	11,027	9,281	1,107,431	6,317,462
Interest	14,514				14,514
Tuition and Fees	62,329				62,329
Extracurricular Activities	990			113,276	114,266
Gifts and Donations	5,050			11,874	16,924
Customer Sales and Services				92,537	92,537
Miscellaneous	2,166			125,200	127,366
Total Revenues	<u>6,197,500</u>	<u>175,495</u>	<u>149,535</u>	<u>1,468,903</u>	<u>7,991,433</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,067,826		5,784	459,802	3,533,412
Special	661,788			216,882	878,670
Vocational	186,497				186,497
Support Services:					
Pupils	285,952			53,076	339,028
Instructional Staff	185,577			241,357	426,934
Board of Education	7,216				7,216
Administration	840,086			58,652	898,738
Fiscal	205,610	3,695	3,232	11,527	224,064
Operation and Maintenance of Plant	800,095		146,887	13,398	960,380
Pupil Transportation	106,470			123	106,593
Operation of Non-Instructional Services				294,801	294,801
Extracurricular Activities	147,552			110,390	257,942
Capital Outlay			517,755		517,755
Debt Service:					
Principal	1,254	66,565			67,819
Interest		92,002			92,002
Total Expenditures	<u>6,495,923</u>	<u>162,262</u>	<u>673,658</u>	<u>1,460,008</u>	<u>8,791,851</u>
Excess of Revenues Over (Under) Expenditures	<u>(298,423)</u>	<u>13,233</u>	<u>(524,123)</u>	<u>8,895</u>	<u>(800,418)</u>
OTHER FINANCING SOURCES AND USES:					
General Obligation Bonds Issued			427,035		427,035
Inception of Capital Lease	89,340				89,340
Total Other Financing Sources and Uses	<u>89,340</u>	<u>-</u>	<u>427,035</u>	<u>-</u>	<u>516,375</u>
Net Change in Fund Balances	(209,083)	13,233	(97,088)	8,895	(284,043)
Fund Balance (Deficit) at Beginning of Year	(814,560)	219,049	380,354	411,507	196,350
Fund Balance (Deficit) at End of Year	<u>\$ (1,023,643)</u>	<u>\$ 232,282</u>	<u>\$ 283,266</u>	<u>\$ 420,402</u>	<u>\$ (87,693)</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 the Statement of Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ (284,043)

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

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

Capital Outlay - Depreciable Capital Assets	-	
Depreciation	\$ (404,702)	
		(404,702)

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

Intergovernmental	19,333	
Delinquent Property Taxes	30,675	
		50,008

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		67,819
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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.

Inception of a capital lease	(89,340)	
Proceeds from general obligation bonds	(426,565)	
		(515,905)

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

Intergovernmental Payable	19,332	
Compensated Absences Payable	50,834	
		70,166

Change in Net Assets of Governmental Activities	\$	<u>(1,016,657)</u>
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See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 925,000	\$ 925,000	\$ 917,270	\$ (7,730)
Intergovernmental	5,190,611	5,190,611	5,189,723	(888)
Interest	10,000	10,000	9,927	(73)
Tuition and Fees	67,000	67,000	66,679	(321)
Extracurricular Activities	1,000	1,000	990	(10)
Gifts and Donations	5,100	5,100	5,050	(50)
Miscellaneous	2,200	2,200	2,120	(80)
Total Revenues	<u>6,200,911</u>	<u>6,200,911</u>	<u>6,191,759</u>	<u>(9,152)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,302,585	3,550,801	3,129,345	421,456
Special	484,803	484,803	622,914	(138,111)
Vocational	106,691	106,691	219,907	(113,216)
Support Services:				
Pupils	152,579	152,579	292,788	(140,209)
Instructional Staff	322,209	322,209	186,891	135,318
Board of Education			7,216	(7,216)
Administration	658,965	658,965	852,171	(193,206)
Fiscal	111,647	111,647	207,735	(96,088)
Operation and Maintenance of Plant	768,155	768,155	695,328	72,827
Pupil Transportation	47,469	47,469	104,708	(57,239)
Extracurricular Activities	85,000	85,000	147,240	(62,240)
Total Expenditures	<u>6,040,103</u>	<u>6,288,319</u>	<u>6,466,243</u>	<u>(177,924)</u>
Excess of Revenues Over (Under) Expenditures	<u>160,808</u>	<u>(87,408)</u>	<u>(274,484)</u>	<u>(187,076)</u>
Net Change in Fund Balances	160,808	(87,408)	(274,484)	(187,076)
Fund Balance (Deficit) at Beginning of Year	30,555	30,555	30,555	-
Prior Year Encumbrances Appropriated	9,550	9,550	9,550	-
Fund Balance (Deficit) at End of Year	<u>\$ 200,913</u>	<u>\$ (47,303)</u>	<u>\$ (234,379)</u>	<u>\$ (187,076)</u>

See Accompanying Notes to the Basic Financial Statements

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>10,770</u>	\$ <u>30,532</u>
Total Assets	<u>10,770</u>	<u>30,532</u>
Liabilities		
Current Liabilities:		
Due to Students	<u>-</u>	<u>30,532</u>
Total Liabilities	<u>-</u>	<u>30,532</u>
Net Assets		
Held in Trust for Scholarships	<u>10,770</u>	<u>-</u>
Total Net Assets	<u>\$ 10,770</u>	<u>\$ -</u>

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, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Miscellaneous	\$ -
Total Additions	<u>-</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Assets	-
Net Assets Beginning of Year	10,770
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, 2005**

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 42 non-certified and 79 certified full-time teaching personnel who provide services to 930 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, 2005
(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).

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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.

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

E. Budgetary Process

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

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

F. Cash and Investments

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

During fiscal year 2005, investments were limited to STAR Ohio and a Federal Home Loan Bank Bond. Investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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, 2005.

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 2005 amounted to \$14,514.

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

G. Inventory

On 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 expenditure when purchased.

H. Restricted Assets

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

J. Interfund Balances

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

K. Compensated Absences

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

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

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

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

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

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

O. Interfund Assets/Liabilities

On 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 and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

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.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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 2005.

3. 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.

Net Change in Fund Balance Major Governmental Fund	
<hr/>	
GAAP Basis	(\$209,083)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	25,292
Accrued FY 2005, Not Yet Received in Cash	(120,373)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(849,282)
Accrued FY 2005, Not Yet Paid in Cash	909,936
Advances Net	
Encumbrances Outstanding at Year End (Budget Basis)	(30,974)
Budget Basis	<u>(\$274,484)</u>

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. 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.

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
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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, \$302,611 of the District's bank balance of \$402,611 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, 2005, the District had the following investments. All investments are in an internal investment pool.

	<u>Carrying and Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Bond	\$503,870	01/17/07
STAR Ohio	6,571	Average
Total Investments	<u>\$510,441</u>	

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. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. 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 it is 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.

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.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, 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 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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, 2005 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 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$32,109,210	74%	\$32,088,860	74%
Commercial/Industrial	5,121,490	12%	4,826,380	11%
Public Utility	3,357,420	7%	3,377,770	8%
Tangible Personal	2,934,960	7%	2,934,960	7%
Total Assessed Value	<u>\$43,523,080</u>	<u>100%</u>	<u>\$43,227,970</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$42.19		\$44.69	

6. RECEIVABLES

Receivables at June 30, 2005, 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:

	Amount
Governmental Activities	
Food Service	\$27,561
Title VI-B	59,826
Title I	49,607
Title VI	3,364
Drug Free Schools	3,723
Title II-A	17,400
Miscellaneous Federal Grants	1,302
Total Intergovernmental Receivables	<u>\$162,783</u>

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$291,078			\$291,078
Total Nondepreciable Capital Assets	<u>291,078</u>			<u>291,078</u>
Depreciable Capital Assets				
Land Improvements	766,792			766,792
Buildings and Building Improvements	10,734,084			10,734,084
Furniture, Fixtures, and Equipment	695,178			695,178
Vehicles	292,637			292,637
Books	471,260			471,260
Total Depreciable Capital Assets	<u>12,959,951</u>			<u>12,959,951</u>
Less Accumulated Depreciation				
Land Improvements	300,685	32,129		332,814
Buildings and Building Improvements	3,102,446	289,146		3,391,592
Furniture, Fixtures, and Equipment	446,642	42,122		488,764
Vehicles	253,274	15,992		269,266
Books	445,947	25,313		471,260
Total Accumulated Depreciation	<u>4,548,994</u>	<u>404,702</u>		<u>4,953,696</u>
Depreciable Capital Assets, Net	<u>8,410,957</u>	<u>(404,702)</u>		<u>8,006,255</u>
Governmental Activities Capital Assets, Net	<u>\$8,702,035</u>	<u>(\$404,702)</u>		<u>\$8,297,333</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$335,247
Support Services:	
Instructional Staff	24,848
Administration	957
Operation and Maintenance of Plant	2,107
Pupil Transportation	15,991
Non-Instructional Services	11,757
Extracurricular	13,795
Total Depreciation Expense	<u>\$404,702</u>

8. 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	\$231,675

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. 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 2005 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	0	1,000,000
General Liability		
Per occurrence	0	1,000,000
Per year		3,000,000

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

For fiscal year 2005, 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.

10. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website, 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 at an actuarially determined rate, which is currently 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, 2005, 2004, and 2003 were \$158,427, \$153,112, and \$137,448, respectively; 52 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contributions for fiscal year 2005 are \$79,668.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

B. State Teachers Retirement System

The District participates in 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. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

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.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by STRS, 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, 2005, 2004, and 2003 were \$597,643, \$377,706, and \$502,635, respectively, 94 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$84,127.

11. POSTEMPLOYMENT BENEFITS

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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 fund 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 net claims.

The number of participants currently receiving health care benefits is approximately 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. 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 62 days for classified employees and 62 days for certificated employees.

13. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	Balance at July 1, 2004	Additions	Deductions	Balance at June 30, 2005	Due Within One Year
School Improvement Bonds	\$1,440,000		\$55,000	\$1,385,000	\$55,000
Energy Conservation Loan		\$326,565	11,565	315,000	15,000
Bond Anticipation Note		100,000		100,000	100,000
Capital Leases		89,340	1,254	88,086	15,619
Compensated Absences	<u>527,962</u>	<u>477,128</u>	<u>527,962</u>	<u>477,128</u>	
Total Long-Term Obligations	<u>\$1,967,962</u>	<u>\$993,033</u>	<u>\$595,781</u>	<u>\$2,365,214</u>	<u>\$185,619</u>

General Obligation Bonds - On May 1, 1998, Wellsville Local School District issued \$1,709,000 in voted general obligation bonds for school improvements. The bonds were issued for a twenty-two year period with final maturity at December 1, 2020, with varying interest rates from 4.35 percent to 5.65 percent. The bonds will be retired from the 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 2004, 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 2006, with an interest rate of 3.75%. The note will be retired from the Debt Service Fund.

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

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$170,000	\$87,777	\$257,777
2007	80,000	83,326	163,326
2008	85,000	79,881	164,881
2009	85,000	77,220	162,220
2010	90,000	74,221	164,221
2011-2015	515,000	313,038	828,038
2016-2020	650,000	174,548	824,548
2021	125,000	7,063	132,063
Total	\$1,800,000	\$897,074	\$2,697,074

14. 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 2005, 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, 2004	(\$73,682)	\$10,318	\$70,567
Current Year Set-aside Requirement	144,532	144,532	
Qualifying Disbursements	(22,726)	(41,866)	
Total	\$48,124	\$112,984	70,567
Cash Balance Carried Forward to FY 2006	\$48,124	\$112,984	70,567
Total Restricted Assets	\$48,124	\$112,984	\$70,567

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, 2005. 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
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. 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.

16. 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.

17. 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.

18. 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, 2005.

B. Litigation

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

19. ACCOUNTABILITY AND COMPLIANCE

Fund Balances at June 30, 2005, the General Fund had a cash deficit balance of (\$234,379). The deficits were caused by an actual cash deficit in the fund.

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

20. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 4 "Deposits and Investments" for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The effect of the implementation of this technical bulletin had no material effect on fund balances and net assets.

WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU	10.550		\$13,746		\$13,746
National School Breakfast Program	05-PU	10.553	\$34,961		\$34,961	
National School Lunch Program	LL-P4	10.555	163,637		163,637	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>198,598</u>	<u>13,746</u>	<u>198,598</u>	<u>13,746</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies						
(ESEA Title I)	C1-S1-2004	84.010	28,202		26,471	
Total ESEA Title I	C1-S1-2005		<u>203,744</u>		<u>218,405</u>	
			231,946		244,876	
Special Education Grants to States	6BSF-2005	84.027	153,155		154,604	
Drug Free School Grant	DR-S1-2004	84.186			1,226	
	DR-S1-2005		3,397		2,545	
Total Drug Free School Grant			<u>3,397</u>		<u>3,771</u>	
ACES II Grant		84.215			35,952	
Innovative Educational Program Strategies	C2-S1-2005	84.298	964		2,901	
Education Technology State Grant	TJ-S1-2004	84.318			4,852	
	TJ-S1-2005		5,534		10,359	
Total Education Technology State Grant			<u>5,534</u>		<u>15,211</u>	
Emergency School Repairs/School Renovation Program	ATS3-2002	84.352A	(149)			
Title II A Improving Teacher Quality Program	TR-S1-2004	84.367	13,654		17,516	
	TR-S1-2005		56,472		57,627	
Total Title II A Grant			<u>70,126</u>		<u>75,143</u>	
Total U.S. Department of Education			<u>464,973</u>		<u>532,458</u>	
Total Federal Awards			<u><u>\$663,571</u></u>	<u><u>\$13,746</u></u>	<u><u>\$731,056</u></u>	<u><u>\$13,746</u></u>

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
JUNE 30, 2005**

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.

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 market value of the commodities received.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellsville Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2006, wherein we noted that the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion 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 May 25, 2006, 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the District's management dated May 25, 2006, we reported other matters related to noncompliance we deemed immaterial.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

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, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 25, 2006



**Auditor of State
Betty Montgomery**

**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 the 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 applies to each major federal program for the year ended June 30, 2005. 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, the Wellsville Local School District complied, in all material respects, with the requirements referred to above that apply to each major federal program for the year ended June 30, 2005.

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.

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. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 25, 2006.

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.



Betty Montgomery
Auditor of State

May 25, 2006

**WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

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 weakness 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 weakness conditions 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):	Child Nutrition Cluster CFDA # 10.550, 10.553, 10.555
<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 2005-001

Non Compliance 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 extend 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 78% of the tested expenditures in fiscal year 2005. Then and Now Certificates were used for some of these expenditures but were not affirmed by the Board of Education. The District did not utilize the blanket certificate of the super blanket certificate exceptions described above for those expenditures lacking prior certification.

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

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

FINDING NUMBER 2005-002

Non Compliance Citation

Ohio Revised Code § 5705.10 provides that money paid into any fund shall be used for the purpose for which it was established. At June 30, 2005, the General Fund had a deficit cash balance of \$234,479.

The deficit balance indicates that money from another fund(s) was used to pay the obligations of the aforementioned fund.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

WELLSVILLE LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC Section 5705.41(D) Disbursements were not properly certified.	No	Cited again as Finding Number 2005-001



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JULY 25, 2006**