

Gallipolis City School District

Gallia County

Single Audit

July 1, 2002 through June 30, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Gallipolis City School District
Gallipolis, Ohio

We have reviewed the Independent Auditor's Report of the Gallipolis City School District, Gallia County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Gallipolis City School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 13, 2004

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Gallipolis City School District
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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the District), Gallia County, as of and for the year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2003, and the respective changes in financial position thereof, and the respective 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 March 12, 2004, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
March 12, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The discussion and analysis of the Gallipolis City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. 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 the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$869,949 which represents a 18.27% increase from 2002.
- General revenues accounted for \$15,067,640 in revenue or 81.09% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,513,361 or 18.91% of total revenues of \$18,581,001.
- The District had \$17,711,052 in expenses related to governmental activities; only \$3,513,361 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,067,640 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$14,862,740 in revenues and other financing sources and \$14,334,066 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance increased \$533,887 from \$1,041,905 to \$1,575,792.

Using the Basic Financial Statements

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

The *Statement of Net Assets* and *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 the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities <u>2003</u>
Assets	
Current and other assets	\$ 10,046,150
Capital assets	3,971,949
Total assets	<u>14,018,099</u>
Liabilities	
Current liabilities	6,863,273
Long-term liabilities	1,523,567
Total liabilities	<u>8,386,840</u>
Net Assets	
Invested in capital assets, net of related debt	3,803,949
Restricted	1,354,470
Unrestricted	<u>472,840</u>
Total net assets	<u>\$ 5,631,259</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$5,631,259. At year-end, unrestricted net assets were \$472,840.

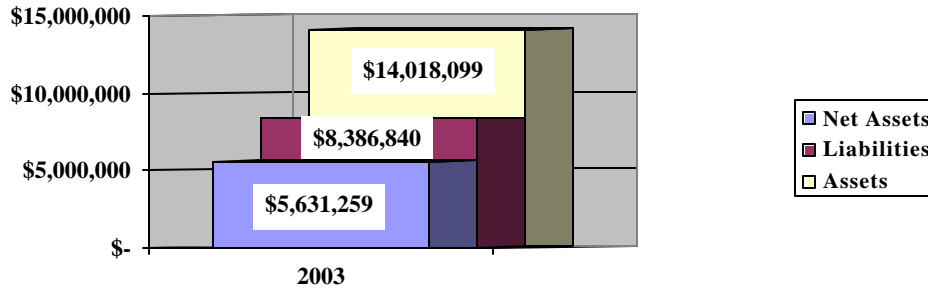
At year-end, capital assets represented 28.33% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$3,803,949. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,354,470 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$472,840 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
Revenues	
Program revenues:	
Charges for services and sales	\$ 601,157
Operating grants and contributions	2,900,094
Capital grants and contributions	12,110
General revenues:	
Property taxes	4,759,016
Grants and entitlements	9,976,533
Investment earnings	150,712
Other	181,379
Total revenues	<u>18,581,001</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2003</u>
Expenses	
Program expenses:	
Instruction:	
Regular	\$ 7,861,766
Special	2,289,380
Vocational	337,696
Support services:	
Pupil	815,472
Instructional staff	966,377
Board of education	47,190
Administration	1,374,357
Fiscal	378,593
Operations and maintenance	1,401,822
Pupil transportation	1,164,358
Central	70,209
Food service operations	573,644
Extracurricular activities	419,665
Interest and fiscal charges	<u>10,523</u>
Total expenses	<u>17,711,052</u>
Increase in net assets	<u>\$ 869,949</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$869,949. Total governmental expenses of \$17,711,052 were offset by program revenues of \$3,513,361 and general revenues of \$15,067,640. Program revenues supported 19.84% of the total governmental expenses.

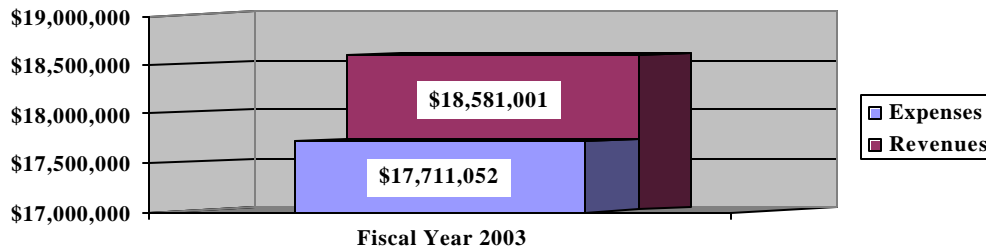
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 79.30% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

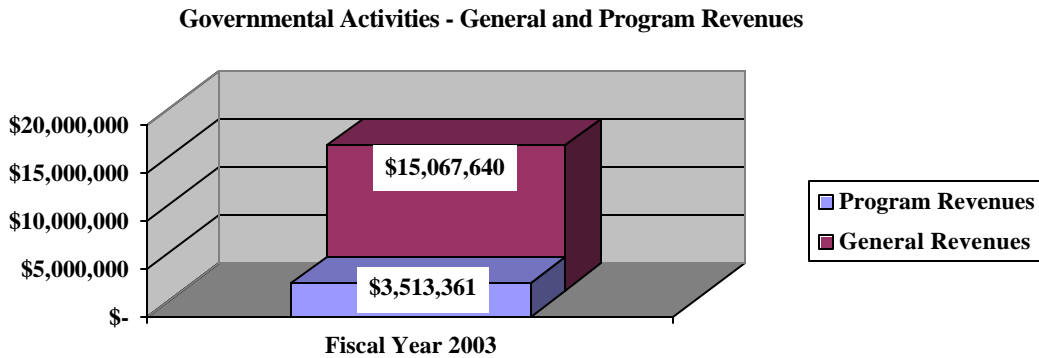
	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 7,861,766	\$ 6,479,320
Special	2,289,380	1,738,836
Vocational	337,696	337,696
Support services:		
Pupil	815,472	791,603
Instructional staff	966,377	568,485
Board of education	47,190	47,190
Administration	1,374,357	1,288,569
Fiscal	378,593	378,593
Operations and maintenance	1,401,822	1,078,452
Pupil transportation	1,164,358	1,164,358
Central	70,209	60,951
Food service operations	573,644	12,910
Extracurricular activities	419,665	240,205
Interest and fiscal charges	10,523	10,523
Total expenses	\$ 17,711,052	\$ 14,197,691

The dependence upon tax and other general revenues for governmental activities is apparent, 81.57% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.16%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$2,659,409, which is higher than last year's total of \$2,236,001. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Fund Balance June 30, 2002	Increase (Decrease)
General	\$ 1,575,792	\$ 1,041,905	\$ 533,887
Other Governmental	<u>1,083,617</u>	<u>1,194,096</u>	<u>(110,479)</u>
Total	<u>\$ 2,659,409</u>	<u>\$ 2,236,001</u>	<u>\$ 423,408</u>

General Fund

The District's general fund balance increased by \$533,887 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed to property tax increases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

	2003 Amount	Restated 2002 Amount	Percentage <u>Change</u>
Revenues			
Taxes	\$ 4,516,465	\$ 3,839,860	17.62 %
Tuition	9,406	10,252	(8.25) %
Earnings on investments	147,065	165,692	(11.24) %
Intergovernmental	9,979,013	9,360,602	6.61 %
Other revenues	210,679	315,922	(33.31) %
Total	<u>\$ 14,862,628</u>	<u>\$ 13,692,328</u>	8.55 %
Expenditures			
Instruction	\$ 8,293,699	\$ 8,042,316	3.13 %
Support services	5,519,916	5,084,201	8.57 %
Extracurricular activities	302,270	252,585	19.67 %
Facilities acquisition and construction	<u>15,895</u>	<u>88,148</u>	(81.97) %
Total	<u>\$ 14,131,780</u>	<u>\$ 13,467,250</u>	4.93 %

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 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues were \$14,508,000, which is higher than the original budgeted revenues estimate of \$13,900,000. Actual revenues and other financing sources for fiscal 2003 was \$14,536,463. This represents a \$28,463 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,391,851 were increased to \$15,126,851 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$14,941,475, which was \$185,376 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$3,971,949 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2003	2002
Land	\$ 986,120	\$ 986,120
Land improvements	689,516	639,644
Building and improvements	811,212	876,536
Furniture and equipment	753,802	840,146
Vehicles	731,299	687,951
Total	\$ 3,971,949	\$ 4,030,397

Total additions to capital assets for 2003 were \$387,312. The overall decrease in capital assets of \$58,448 is primarily due to the recording of \$445,760 in depreciation expense for fiscal 2003.

Debt Administration

At June 30, 2003, the District had \$168,000 in energy conservation notes outstanding. Of this total, \$56,000 is due within one year and \$112,000 is due within greater than one year. The following table summarizes the outstanding notes.

Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2002
Energy conservation notes	\$ <u>168,000</u>	\$ <u>224,000</u>
Total	\$ <u>168,000</u>	\$ <u>224,000</u>

The energy conservation notes were received in 1997. These notes are scheduled to mature in fiscal year 2006 and bear an interest rate of 5.38%. Payment of principal and interest on the energy conservation note is being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$19,167,948 with an unvoted debt margin of \$212,966 and an energy conservation debt margin of \$1,748,691.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Current Financial Related Activities

The District has continued to maintain the highest standards of service to our students, parents, and community. The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed from the community's citizens. The District has communicated to its community that they rely upon their support for part of its operations, and will continue to work diligently to plan expenses, staying carefully within the five-year financial plan. State law retards the growth of income generated by local levies rendering revenue relatively constant. The last new levy approved by the taxpayers was November 1990. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance.

The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". The State has not yet developed a school funding plan that has been deemed acceptable by the court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget.

A challenge facing the District is the need to update its facilities to enhance learning space design for students. At this time, the Board is working with the Ohio School Facilities Commission (OSFC) and has applied to the Exceptional Needs Program for the current high school facility. The current high school site includes two main structures that house grades 7-12. The main structure for grades 7-8 is 88 years old and the "newer" building for grades 9-12 was built in 1957. OSFC funding would comprise of approximately 31% of the approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Ellen Marple, Treasurer, Gallipolis City School District, 61 State Street, Gallipolis, Ohio 45631.

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,261,392
Receivables:	
Taxes	5,170,069
Accounts	36,107
Intergovernmental	446,033
Prepayments	34,359
Materials and supplies inventory	98,190
Capital assets:	
Land	986,120
Depreciable capital assets, net	2,985,829
Total capital assets.	3,971,949
 Total assets.	 14,018,099
 Liabilities:	
Accounts payable.	349,750
Accrued wages and benefits	1,497,254
Pension obligation payable.	340,175
Matured compensated absences payable	22,135
Intergovernmental payable	48,673
Deferred revenue	4,603,800
Accrued interest payable	1,486
Long-term liabilities:	
Due within one year.	275,443
Due within more than one year	1,248,124
 Total liabilities	 8,386,840
 Net Assets:	
Invested in capital assets, net of related debt.	3,803,949
Restricted for:	
Capital projects	647,170
Debt service.	3,089
Other purposes	704,211
Unrestricted.	472,840
 Total net assets	 \$ 5,631,259

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$ 7,861,766	\$ 130,054	\$ 1,240,282	\$ 12,110	\$ (6,479,320)
Special	2,289,380	-	550,544	-	(1,738,836)
Vocational	337,696	-	-	-	(337,696)
Support services:					
Pupil	815,472	248	23,621	-	(791,603)
Instructional staff	966,377	-	397,892	-	(568,485)
Board of education	47,190	-	-	-	(47,190)
Administration	1,374,357	-	85,788	-	(1,288,569)
Fiscal	378,593	-	-	-	(378,593)
Operations and maintenance	1,401,822	31,780	291,590	-	(1,078,452)
Pupil transportation	1,164,358	-	-	-	(1,164,358)
Central	70,209	-	9,258	-	(60,951)
Food service operations	573,644	259,615	301,119	-	(12,910)
Extracurricular activities	419,665	179,460	-	-	(240,205)
Interest and fiscal charges	10,523	-	-	-	(10,523)
Total governmental activities	<u>\$ 17,711,052</u>	<u>\$ 601,157</u>	<u>\$ 2,900,094</u>	<u>\$ 12,110</u>	<u>(14,197,691)</u>
General Revenues:					
Property taxes levied for:					
General purposes					4,688,716
Debt service					70,300
Grants and entitlements not restricted					
to specific programs					9,976,533
Investment earnings					150,712
Miscellaneous					181,379
Total general revenues					<u>15,067,640</u>
Change in net assets					869,949
Net assets at beginning of year (restated - see Note 3)					<u>4,761,310</u>
Net assets at end of year					<u>\$ 5,631,259</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,560,802	\$ 1,325,947	\$ 3,886,749
Receivables:			
Taxes.	5,102,244	67,825	5,170,069
Accounts	35,988	119	36,107
Intergovernmental	-	446,033	446,033
Interfund loans	6,100	-	6,100
Prepayments.	33,204	1,155	34,359
Materials and supplies inventory	75,413	22,777	98,190
Restricted assets:			
Equity in pooled cash and cash equivalents	374,643	-	374,643
Total assets	\$ 8,188,394	\$ 1,863,856	\$ 10,052,250
Liabilities:			
Accounts payable	\$ 293,537	\$ 56,213	\$ 349,750
Accrued wages and benefits	1,254,758	242,496	1,497,254
Matured compensated absences payable	22,135	-	22,135
Pension obligation payable.	209,411	44,228	253,639
Intergovernmental payable.	38,790	9,883	48,673
Interfund loans payable.	-	6,100	6,100
Deferred revenue.	4,793,971	421,319	5,215,290
Total liabilities	6,612,602	780,239	7,392,841
Fund Balances:			
Reserved for encumbrances	436,573	236,697	673,270
Reserved for materials and supplies inventory.	75,413	22,777	98,190
Reserved for prepayments	33,204	1,155	34,359
Reserved for property tax unavailable for appropriation	74,294	1,035	75,329
Reserved for BWC refunds.	74,921	-	74,921
Reserved for instructional materials	119,356	-	119,356
Reserved for capital acquisition	180,366	-	180,366
Unreserved:			
Designation for budget stabilization.	13,653	-	13,653
Unreserved, undesignated, reported in:			
General fund	568,012	-	568,012
Special revenue funds.	-	174,783	174,783
Capital projects funds.	-	647,170	647,170
Total fund balances	1,575,792	1,083,617	2,659,409
Total liabilities and fund balances	\$ 8,188,394	\$ 1,863,856	\$ 10,052,250

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 2,659,409
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,971,949
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 257,631	
Intergovernmental revenue	353,859	
Total		611,490
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	1,355,567	
Pension obligation payable	86,536	
Energy conservation notes payable	168,000	
Accrued interest payable	1,486	
Total		(1,611,589)
Net assets of governmental activities		\$ 5,631,259

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,516,465	\$ 68,053	\$ 4,584,518
Tuition.	9,406	-	9,406
Charges for services.	-	259,615	259,615
Earnings on investments.	147,065	3,647	150,712
Extracurricular.	-	171,682	171,682
Other local revenues.	210,791	128,674	339,465
Intergovernmental - intermediate sources . .	2,480	-	2,480
Intergovernmental - state.	9,928,234	1,290,493	11,218,727
Intergovernmental - federal.	48,299	1,359,916	1,408,215
Total revenue	<u>14,862,740</u>	<u>3,282,080</u>	<u>18,144,820</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,228,154	1,567,310	7,795,464
Special.	1,725,360	567,309	2,292,669
Vocational.	340,185	-	340,185
Support services:			
Pupil.	780,516	38,649	819,165
Instructional staff	428,378	505,424	933,802
Board of education	47,190	-	47,190
Administration.	1,293,930	85,025	1,378,955
Fiscal	374,720	-	374,720
Operations and maintenance.	1,327,756	44,980	1,372,736
Pupil transportation	1,204,647	-	1,204,647
Central.	62,779	7,202	69,981
Food service operations	-	540,535	540,535
Extracurricular activities	302,270	176,005	478,275
Facilities acquisition and construction . . .	15,895	18,165	34,060
Debt service:			
Principal retirement	-	56,000	56,000
Interest and fiscal charges	-	11,018	11,018
Total expenditures	<u>14,131,780</u>	<u>3,617,622</u>	<u>17,749,402</u>
Excess of revenues under expenditures . . .	<u>730,960</u>	<u>(335,542)</u>	<u>395,418</u>
Other financing sources (uses):			
Transfers in	-	212,555	212,555
Transfers (out).	<u>(202,286)</u>	<u>(10,269)</u>	<u>(212,555)</u>
Total other financing sources (uses)	<u>(202,286)</u>	<u>202,286</u>	<u>-</u>
Net change in fund balances	528,674	(133,256)	395,418
Fund balances at beginning of			
year (restated - see Note 3)	1,041,905	1,194,096	2,236,001
Increase in reserve for inventory	5,213	22,777	27,990
Fund balances at end of year.	<u>\$ 1,575,792</u>	<u>\$ 1,083,617</u>	<u>\$ 2,659,409</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	395,418
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in 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 outlays were less than depreciation expense in the current period.		(58,448)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		27,990
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		410,586
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		56,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		495
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>37,908</u>
Change in net assets of governmental activities	\$	<u><u>869,949</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,004,751	\$ 4,179,920	\$ 4,188,122	\$ 8,202
Tuition.	8,994	9,388	9,406	18
Earnings on investments.	140,626	146,777	147,065	288
Other local revenues.	139,784	145,899	146,185	286
Intergovernmental - intermediate sources.	2,371	2,475	2,480	5
Intergovernmental - state	9,493,537	9,908,794	9,928,234	19,440
Intergovernmental - federal.	47,959	50,057	50,155	98
Total revenue	<u>13,838,022</u>	<u>14,443,310</u>	<u>14,471,647</u>	<u>28,337</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,264,515	6,584,446	6,503,755	80,691
Special.	1,646,261	1,730,337	1,709,132	21,205
Vocational.	333,302	350,324	346,031	4,293
Support services:				
Pupil.	829,386	871,743	861,060	10,683
Instructional staff	402,695	423,261	418,074	5,187
Board of education	49,352	51,873	51,237	636
Administration.	1,256,212	1,320,368	1,304,187	16,181
Fiscal	343,207	360,735	356,314	4,421
Operations and maintenance.	1,435,815	1,509,143	1,490,649	18,494
Pupil transportation	1,173,111	1,233,022	1,217,912	15,110
Central.	85,824	90,207	89,102	1,105
Extracurricular activities.	286,116	300,728	297,043	3,685
Facilities acquisition and construction.	82,896	87,130	86,062	1,068
Total expenditures	<u>14,188,692</u>	<u>14,913,317</u>	<u>14,730,558</u>	<u>182,759</u>
Excess of revenues over (under) expenditures.	<u>(350,670)</u>	<u>(470,007)</u>	<u>(258,911)</u>	<u>211,096</u>
Other financing sources (uses):				
Refund of prior year expenditure.	57,751	60,277	60,395	118
Refund of prior year receipt	(2,350)	(2,470)	(2,440)	30
Transfers in.	87	91	91	-
Transfers (out)	(194,933)	(204,888)	(202,377)	2,511
Advances in.	4,140	4,322	4,330	8
Advances (out)	(5,876)	(6,176)	(6,100)	76
Total other financing sources (uses)	<u>(141,181)</u>	<u>(148,844)</u>	<u>(146,101)</u>	<u>2,743</u>
Net change in fund balance	(491,851)	(618,851)	(405,012)	213,839
Fund balance at beginning of year (restated).	1,981,249	1,981,249	1,981,249	-
Prior year encumbrances appropriated	675,989	675,989	675,989	-
Fund balance at end of year	<u>\$ 2,165,387</u>	<u>\$ 2,038,387</u>	<u>\$ 2,252,226</u>	<u>\$ 213,839</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 58,782
Prepayments	120
	58,902
Total assets.	58,902
Liabilities:	
Accounts payable.	2,309
Due to students	56,593
	58,902
Total liabilities	\$ 58,902

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 217th largest by enrollment among the 740 public and community districts in the state. It currently operates 3 elementary schools and 1 comprehensive high school. The District employs 78 non-certified and 162 certified (including 20 administrative) full-time and part-time employees to provide services to approximately 2,329 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods 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 organizations' government 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 have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. 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. Refer to Note 10 for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

GOVERNMENTAL FUNDS

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

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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Agency funds do not report a measurement focus as they do not report operations.

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 also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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, 2003, but which were levied to finance fiscal year 2004 operation, 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 also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

On the modified accrual basis of accounting, the fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Gallia County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificated of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.
10. Encumbrance accounting is utilized by the District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures/expenses on a non-GAAP budgetary basis in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) – General Fund.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$147,065, which includes \$47,563 assigned from other District funds.

For presentation on the basic 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 are reported as investments.

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

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

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$1,500 during fiscal 2003. 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. Interest incurred during the construction of capital assets is not capitalized. The District does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

I. 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 column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2003, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service or employees with 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

K. 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, 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. Notes are recognized as a liability on the fund financial statements when due.

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

L. 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, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, instructional materials and capital acquisition. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. Designated fund balance represents planned actions for monies set-aside by the District for budget stabilization.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants received which are restricted as to their use by grantors and the amounts restricted for set-asides (see Note 14).

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. 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, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds and to create a reserve for textbooks/instructional materials and capital acquisitions. See Note 14 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Q. Interfund Activity

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 basis financial statements. Transfers between governmental funds are eliminated for reporting on the government-wide statement.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

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

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by fund reclassifications and implementation of GASB Interpretation No. 6, and the conversion to the accrual basis of accounting.

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the GASB Statement No. 34. Certain funds previously reported as enterprise funds are now reported as nonmajor governmental funds. Certain "other adjustments" were necessary to adjust these fund balances to the modified accrual basis of accounting. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance			
June 30, 2002	\$ 1,066,829	\$ 1,060,613	\$ 2,127,442
Fund reclassifications	-	153,859	153,859
Other adjustments	-	(20,376)	(20,376)
Implementation of GASB			
Interpretation No. 6	(24,924)	-	(24,924)
Adjusted fund balance,			
June 30, 2002	\$ 1,041,905	\$ 1,194,096	\$ 2,236,001

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 2,236,001
GASB 34 adjustments:	
Long-term (deferred) assets	200,904
Capital assets	4,030,397
Long-term liabilities	(1,625,411)
Accrued interest payable	(1,981)
Pension obligations	(78,600)
Governmental activities	
net assets, June 30, 2002	\$ 4,761,310

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Governmental Funds	
Disadvantaged Pupil Impact Aid	\$ 64,002
Classroom Reductions	25,216

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances results from adjustments for accrued liabilities. The general fund provides transfers for deficit balances, however, transfers are made when cash is needed rather than when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$4,320,174 and the bank balance was \$4,389,668.

1. \$100,000 was covered by federal depository insurance; and
2. \$4,289,668 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District had no investments at June 30, 2003.

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Special Revenue Fund: Title IIA	\$ 6,100

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
General fund	\$ 202,286	
Nonmajor governmental funds:		
Summer School	91	
Title IIA		\$ 10,178
Title V		2,377
Title II	10,178	
Term Benefits		200,000
Total nonmajor governmental funds	<u>\$ 10,269</u>	<u>\$ 212,555</u>
Total Transfers	<u>\$ 212,555</u>	<u>\$ 212,555</u>

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Taxes available for advance The amount available as an advance at June 30, 2003 was \$74,294 in the general fund and \$1,035 in the debt service fund. These amounts have been recorded as revenue. There were no available tax advances at June 30, 2002.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 169,679,770	85.53	\$ 173,757,660	81.59
Public utility personal	-	-	11,284,560	5.30
Tangible personal property	28,704,306	14.47	27,923,478	13.11
Total	<u>\$ 198,384,076</u>	<u>100.00</u>	<u>\$ 212,965,698</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 31.00		 \$ 31.80	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. 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:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Nonmajor Governmental Funds:	
Alternative School	\$ 1,844
Education for Economic Security Act (EESA)	1,891
Title VI-B	124,116
Title I	77,252
Title VI	785
Federal Emergency Repair	175,000
Drug-Free School Grant	5,091
EHA Preschool Grants for the Handicapped	5,548
Classroom Reduction	53,836
Miscellaneous Federal Grants	670
Total Intergovernmental Receivables	<u>\$ 446,033</u>

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H. for detail), errors and omissions, fund reclassifications, and the depreciation of capital assets in accordance with GASB Statement No. 34.

	Balance 6/30/02	Adjustments	Restated Balance 6/30/02
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 986,120	\$ 986,120
Total capital assets, not being depreciated	<u>-</u>	<u>986,120</u>	<u>986,120</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	-	1,324,019	1,324,019
Buildings and improvements	4,241,347	275,008	4,516,355
Furniture and equipment	3,598,197	(2,133,266)	1,464,931
Vehicles	1,982,826	(157,650)	1,825,176
Total capital assets, being depreciated	<u>9,822,370</u>	<u>(691,889)</u>	<u>9,130,481</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(6,086,204)</u>	<u>(6,086,204)</u>
Governmental activities capital assets, net	<u>\$ 9,822,370</u>	<u>\$ (5,791,973)</u>	<u>\$ 4,030,397</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 06/30/02	Additions	Deductions	Balance 06/30/03
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 986,120	\$ -	\$ -	\$ 986,120
Total capital assets, not being depreciated	986,120	-	-	986,120
<i>Capital assets, being depreciated:</i>				
Land improvements	1,324,019	103,456	-	1,427,475
Buildings and improvements	4,516,355	-	-	4,516,355
Furniture and equipment	1,464,931	86,157	-	1,551,088
Vehicles	1,825,176	197,699	-	2,022,875
Total capital assets, being depreciated	<u>9,130,481</u>	<u>387,312</u>	<u>-</u>	<u>9,517,793</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(684,375)	(53,584)	-	(737,959)
Buildings and improvements	(3,639,819)	(65,324)	-	(3,705,143)
Furniture and equipment	(624,785)	(172,501)	-	(797,286)
Vehicles	<u>(1,137,225)</u>	<u>(154,351)</u>	<u>-</u>	<u>(1,291,576)</u>
Total accumulated depreciation	(6,086,204)	(445,760)	-	(6,531,964)
Governmental activities capital assets, net	<u>\$ 4,030,397</u>	<u>\$ (58,448)</u>	<u>\$ -</u>	<u>\$ 3,971,949</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 154,011
Special	490
Support Services:	
Pupil	1,512
Instructional staff	35,851
Administration	13,825
Fiscal	2,163
Operations and maintenance	24,072
Pupil transportation	158,746
Extracurricular activities	46,001
Food service operations	<u>9,089</u>
Total depreciation expense	<u>\$ 445,760</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS

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

The following is a description of the District's notes outstanding as of June 30, 2003:

	Interest Rate	Issue Date	Maturity Date	Notes Outstanding 06/30/02	Retired in Fiscal 2003	Notes Outstanding 06/30/03
Energy conservation note	5.38%	05/01/97	05/01/06	\$ 224,000	\$ (56,000)	\$ 168,000
Total				<u>\$ 224,000</u>	<u>\$ (56,000)</u>	<u>\$ 168,000</u>

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

Year Ending June 30	Principal on Energy Conservation Notes	Interest on Energy Conservation Notes	Total
2004	\$ 56,000	\$ 8,285	\$ 64,285
2005	56,000	5,272	61,272
2006	<u>56,000</u>	<u>2,260</u>	<u>58,260</u>
Total	<u>\$ 168,000</u>	<u>\$ 15,817</u>	<u>\$ 183,817</u>

- C.** During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
Governmental Activities:					
Energy conservation notes	\$ 224,000	\$ -	\$ (56,000)	\$ 168,000	\$ 56,000
Compensated absences	1,401,411	165,143	(210,987)	1,355,567	219,443
Total long-term obligations, governmental activities	<u>\$ 1,625,411</u>	<u>\$ 165,143</u>	<u>\$ (266,987)</u>	<u>\$ 1,523,567</u>	<u>\$ 275,443</u>

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$19,167,948 (including available funds of \$1,035) an unvoted debt margin of \$212,966 and an unvoted energy conservation debt margin of \$1,748,691.

NOTE 10 - RISK MANAGEMENT

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

During fiscal year 2003, the District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation.

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

Settled claims have not exceeded this commercial coverage in any of the past three years. Liability insurance coverage was reduced from \$2 million per occurrence/\$5 million annual aggregation in 2002.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

OSBA WORKERS' COMPENSATION GROUP RATING

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 8.17% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$237,088, \$233,587, and \$237,264, respectively; 45.30% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$129,692, represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,156,990, \$1,139,076, \$1,075,537, respectively; 83.08% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$195,706, represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.20 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$371,890 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. 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 year 2003, the minimum pay has been established at \$14,500. 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$155,316 during the 2003 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- (d) Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (405,012)
Revenue Accruals	393,533
Expenditure Accruals	(144,836)
Advances	1,770
Encumbrances	<u>683,219</u>
GAAP basis	<u>\$ 528,674</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

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

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

NOTE 14 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>	<u>Budget Stabilization Designation</u>
Set-aside cash balance as of June 30, 2002	\$ 148,392	\$ 56,376	\$ 74,921	\$ 12,630
Current year set-aside requirement	344,299	344,299	-	1,023
Qualifying disbursements	<u>(373,335)</u>	<u>(220,309)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 119,356</u>	<u>\$ 180,366</u>	<u>\$ 74,921</u>	<u>\$ 13,653</u>
Balance carried forward to FY 2004	\$ 119,356	\$ 180,366	\$ 74,921	\$ 13,653

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - STATUTORY RESERVES - (Continued)

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

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

Amount restricted for BWC refunds	\$ 74,921
Amount restricted for instructional materials	119,356
Amount restricted for capital acquisition	<u>180,366</u>
Total restricted assets	\$ 374,643
Amount designated for budget stabilization	\$ 13,653

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A	\$0	\$25,707	\$0	\$30,108
National School Breakfast Program	10.553	05PU	53,335	0	53,335	0
National School Lunch Program	10.555	LLP4	205,090	0	205,090	0
Total U.S. Department of Agriculture- Nutrition Cluster			258,425	25,707	258,425	30,108
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1	578,062	0	512,545	0
Special Education Cluster:						
Special Education: Grants to States	84.027	6BSF	207,979	0	257,431	0
Special Education: Preschool Grants	84.173	PGS1	9,342	0	12,514	0
Total Special Education Cluster:			217,321	0	269,945	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	DRS1	11,016	0	53,000	0
Continuous Improvement Plan	84.276	G2S3/G2S9	0	0	20,587	0
Eisenhower Professional Development Education Grant	84.281	MSS1	0	0	1,509	0
Innovative Educational Program Strategies	84.298	C2S1	16,446	0	17,801	0
Tech Literacy Challenge Grant	84.318	TJS1	14,113	0	19,892	0
Classroom Reduction Funds (Title VIR)	84.340	CRS1	0	0	16,082	0
Federal Emergency Repair Program	84.352	N/A	75,000	0	15,420	0
School Renovations, IDEA and Technology Grant	84.352A	ATS3	5,692	0	5,692	0
Improving Teacher Quality	84.367	TRS1	127,317	0	128,116	0
Total United States Department of Education			1,044,967	0	1,060,589	0
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Passed Through Ohio Emergency Management Agency</i>						
Disaster Assistance	83.544	DR-1453-OH	2,549	0	0	0
Total Federal Emergency Management Agency						
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778	N/A	50,155	0	50,155	0
Total Federal Awards Receipts and Expenditures			<u>\$1,356,096</u>	<u>\$25,707</u>	<u>\$1,369,169</u>	<u>\$30,108</u>

N/A- pass-through entity number not available

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

Gallipolis City School District
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTIONS

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

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Ohio Society of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 12, 2004, in which we indicated the District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, 41 and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

Members of the Board
Gallipolis City School District
Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*
Page 2

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
March 12, 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 45631

Compliance

We have audited the compliance of the Gallipolis City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

Members of the Board
Gallipolis City School District
Report on Compliance With Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
March 12, 2004

Gallipolis City School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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GALLIPOLIS CITY SCHOOL DISTRICT

GALLIA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 18, 2004**