



**Auditor of State
Betty Montgomery**

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wellston City School District, Jackson County, Ohio (the School District) as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic 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 Wellston City School District, Jackson County, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. Also, as mentioned in Note 3, during the year ended June 30, 2003, the Educational Service Center adopted Governmental Accounting Statements 37 and 38 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2004 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

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



Betty Montgomery
Auditor of State

February 4, 2004

Wellston City School District, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Wellston City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities increased \$397,880.
- General revenues accounted for \$11,347,328 or 77% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,463,177 or 23% of total revenues of \$14,810,505.
- Total assets of governmental activities decreased \$1,128,405 as cash decreased \$2,186,402, taxes receivable decreased \$284,671 due to deregulation, intergovernmental receivables decreased \$1,271,311, and capital assets increased \$2,538,159. The decrease in taxes receivable is offset, somewhat, by increased state foundation monies and "hold harmless" deregulation monies.
- The School District had \$14,412,625 in expenses related to governmental activities; only \$3,463,177 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$11,347,328 were adequate to provide for these programs.
- The School District only has two major funds; the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$11,418,073 in revenues and \$11,451,158 in expenditures. The General Fund's balance decreased \$60,361. The Classroom Facilities Capital Projects Fund had \$1,326,888 in revenues and \$2,642,091 in expenditures. The Classroom Facilities Capital Projects Fund's balance decreased by \$1,315,203.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Wellston City School District, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of New Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 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.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 6. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund.

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

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Wellston City School District, Ohio
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 1
Net Assets

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2003 | 2002 |
| Assets | | |
| Current and Other Assets | \$13,066,232 | \$16,732,796 |
| Capital Assets | 37,003,184 | 34,465,025 |
| Total Assets | 50,069,416 | 51,197,821 |
| Liabilities | | |
| Long-term Liabilities | 4,046,100 | 4,475,742 |
| Other Liabilities | 5,223,724 | 6,320,367 |
| Total Liabilities | 9,269,824 | 10,796,109 |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 33,693,184 | 30,975,545 |
| Restricted | 3,859,218 | 6,135,603 |
| Unrestricted | 3,247,190 | 3,290,564 |
| Total Net Assets | \$40,799,592 | \$40,401,712 |

Total assets decreased \$1,128,405. The decrease is primarily due to the decrease of cash and cash equivalents and taxes receivable.

The total liabilities decrease of \$1,526,285 is due to decreases in accounts payable, contracts payable, and compensated absences payable. The decrease in accounts and contracts payable is due primarily to the effective completion of the school facilities construction progress. The decrease in compensated absences payable is due to the retirement of long-term employees in fiscal year 2003.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Wellston City Schools has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Wellston City School District, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
Changes in Net Assets

| | Governmental Activities |
|--|----------------------------|
| | <u>2003</u> |
| Revenues | |
| Program Revenues | |
| Charges for Services | \$412,778 |
| Operating Grants, Contributions and Interest | 2,961,908 |
| Capital Grants and Contributions | 88,491 |
| Total Program Revenues | <u>3,463,177</u> |
| General Revenues | |
| Property Taxes | 2,701,810 |
| Grants and Entitlements | 8,341,924 |
| Investment Earnings | 85,994 |
| Contributions and Donations | 891 |
| Miscellaneous | 148,559 |
| Gain on Sale of Capital Assets | 68,150 |
| Total General Revenues | <u>11,347,328</u> |
| Total Revenues | <u>14,810,505</u> |
| Program Expenses | |
| Instruction: | |
| Regular | 6,266,159 |
| Special | 2,060,346 |
| Vocational | 286,886 |
| Adult/Continuing | 4,631 |
| Support Services: | |
| Pupils | 650,596 |
| Instructional Staff | 1,087,079 |
| Board of Education | 351,075 |
| Administration | 1,059,020 |
| Fiscal | 344,326 |
| Operation and Maintenance of Plant | 769,905 |
| Pupil Transportation | 633,620 |
| Central | 93,043 |
| Operation of Non-Instructional Services | 98,290 |
| Food Service Operations | 267,942 |
| Extracurricular Activities | 270,899 |
| Interest and Fiscal Charges | 168,808 |
| Total Expenses | <u>14,412,625</u> |
| Increase in Net Assets | <u>\$397,880</u> |

Over the past several years, the School District has remained in good financial position. The School District added several staff members to accommodate the new school facilities and additional instructional programs. The combined salaries and benefits as well as supplies have increased the expenses. The expenses for the Wellston City School District have increased without the offset of an increase in revenues. The cash balance carryover has declined as the School District has implemented these new programs and opened the new facilities. The School District has also seen a large percentage increase in all types of insurance.

Wellston City School District, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

| | <u>Total Cost of Services</u> 2003 | <u>Net Cost of Services</u> 2003 |
|---|---|---|
| Program Expenses | | |
| Instruction: | | |
| Regular | \$6,266,159 | \$5,339,333 |
| Special | 2,060,346 | 1,020,051 |
| Vocational | 286,886 | 286,886 |
| Adult/Continuing | 4,631 | 4,631 |
| Support Services: | | |
| Pupils | 650,596 | 542,841 |
| Instructional Staff | 1,087,079 | 746,023 |
| Board of Education | 351,075 | 349,765 |
| Administration | 1,059,020 | 959,165 |
| Fiscal | 344,326 | 336,230 |
| Operation and Maintenance of Plant | 769,905 | 720,328 |
| Pupil Transportation | 633,620 | 534,225 |
| Central | 93,043 | 91,723 |
| Operation of Non-Instructional Services | 98,290 | 51,826 |
| Food Service Operations | 267,942 | (346,593) |
| Extracurricular Activities | 270,899 | 144,206 |
| Interest and Fiscal Charges | 168,808 | 168,808 |
| Total | <u>\$14,412,625</u> | <u>\$10,949,448</u> |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 77% of instruction activities are supported through taxes and other general revenues.

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,077,425 and expenditures of \$17,372,276.

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$11,133,611, below original estimates of \$11,717,181. Of this \$583,570 difference, most were due to inflated tax and intergovernmental estimates, based on the County Auditor's Certification and the State's budget reduction.

Wellston City School District, Ohio
 Management Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

The School District's ending unobligated General Fund balance was \$4,439,139.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the School District had \$37,003,184 invested in land, buildings, furniture and equipment, vehicles, and construction in progress. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
 Capital Assets
 (Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2003 | 2002 |
| Land and Land Improvements | \$313,189 | \$343,308 |
| Buildings and Improvements | 33,075,357 | 982,956 |
| Furniture and Equipment | 1,997,258 | 857,531 |
| Vehicles | 543,264 | 424,284 |
| Textbooks | 1,074,116 | 456,963 |
| Construction in Progress | 0 | 31,399,983 |
| Totals | \$37,003,184 | \$34,465,025 |

During fiscal year 1999, voters of the School District passed a bond issue in the amount of \$3,656,000 as a result of the School District being approved for a \$31,072,412 school facilities loan through the State Department of Education for the additions to the elementary school, and the construction of a new middle and high school. For additional information on capital assets, see note 10 to the financial statements.

Debt

At June 30, 2003, the School District had general obligation bonds outstanding of \$3,300,000 and \$10,000 in energy conservation notes. The notes were issued for energy conservation improvements. For additional information on debt, see note 14 to the basic financial statements.

CURRENT ISSUES

As the preceding information shows, the School District depends upon its taxpayers. Although the Wellston School District must tighten spending to better bring expenditures in line with revenues, and carefully watch financial planning until a plan of action can be taken. One of the concerns the School District will be faced with in future fiscal years is the continued decrease in revenue in personal property taxes due to deregulation.

CONTRACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Wellston City School District, Ohio
Statement of Net Assets
June 30, 2003

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$8,577,632 |
| Cash and Cash Equivalents in Segregated Accounts | 572,729 |
| Property Taxes Receivable | 3,066,276 |
| Accounts Receivable | 87,417 |
| Intergovernmental Receivable | 602,014 |
| Prepaid Items | 144,542 |
| Materials and Supplies Inventory | 15,622 |
| Nondepreciable Capital Assets | 313,189 |
| Depreciable Capital Assets, Net | 36,689,995 |
| <i>Total Assets</i> | 50,069,416 |
| Liabilities | |
| Accounts Payable | 79,265 |
| Contracts Payable | 659,990 |
| Accrued Wages and Benefits Payable | 1,136,646 |
| Retainage Payable | 563,811 |
| Accrued Interest Payable | 10,752 |
| Vacation Benefits Payable | 21,005 |
| Deferred Revenue | 2,309,960 |
| Intergovernmental Payable | 442,295 |
| Long-Term Liabilities: | |
| Due within One Year | 175,182 |
| Due in More than One Year | 3,870,918 |
| <i>Total Liabilities</i> | 9,269,824 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 33,693,184 |
| Restricted for: | |
| Other Purposes | 1,785,112 |
| Bus Purchases | 397,851 |
| Budget Stabilization | 56,688 |
| Debt Service | 413,556 |
| Capital Projects | 1,206,011 |
| Unrestricted | 3,247,190 |
| <i>Total Net Assets</i> | \$40,799,592 |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Statement of Activities
For the Fiscal Year Ended June, 30, 2003

| | Expenses | Program Revenues | | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|----------------------|--|----------------------------------|---|
| | | Charges for Services | Operating Grants, Contributions and Interest | | |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$6,266,159 | \$26,308 | \$900,518 | \$0 | (\$5,339,333) |
| Special | 2,060,346 | 12,722 | 1,027,573 | 0 | (1,020,051) |
| Vocational | 286,886 | 0 | 0 | 0 | (286,886) |
| Adult/Continuing | 4,631 | 0 | 0 | 0 | (4,631) |
| Support Services: | | | | | |
| Pupils | 650,596 | 0 | 107,755 | 0 | (542,841) |
| Instructional Staff | 1,087,079 | 162 | 340,894 | 0 | (746,023) |
| Board of Education | 351,075 | 0 | 1,310 | 0 | (349,765) |
| Administration | 1,059,020 | 8,965 | 90,890 | 0 | (959,165) |
| Fiscal | 344,326 | 0 | 8,096 | 0 | (336,230) |
| Operation and Maintenance of Plant | 769,905 | 5,911 | 43,666 | 0 | (720,328) |
| Pupil Transportation | 633,620 | 5,255 | 5,649 | 88,491 | (534,225) |
| Central | 93,043 | 0 | 1,320 | 0 | (91,723) |
| Operation of Non-Instructional Services | 98,290 | 0 | 46,464 | 0 | (51,826) |
| Food Service Operations | 267,942 | 235,616 | 378,919 | 0 | 346,593 |
| Extracurricular Activities | 270,899 | 117,839 | 8,854 | 0 | (144,206) |
| Interest and Fiscal Charges | 168,808 | 0 | 0 | 0 | (168,808) |
| Totals | \$14,412,625 | \$412,778 | \$2,961,908 | \$88,491 | (10,949,448) |
| General Revenues | | | | | |
| Property Taxes Levied for: | | | | | |
| General Purposes | | | | | 2,117,551 |
| Capital Outlay | | | | | 228,038 |
| Debt Service | | | | | 310,596 |
| Other Purposes | | | | | 45,625 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 8,341,924 |
| Investment Earnings | | | | | 85,994 |
| Contributions and Donations | | | | | 891 |
| Miscellaneous | | | | | 148,559 |
| Gain on Sale of Capital Assets | | | | | 68,150 |
| Total General Revenues | | | | | 11,347,328 |
| Change in Net Assets | | | | | 397,880 |
| Net Assets at Beginning of Year - See Note 3 | | | | | 40,401,712 |
| Net Assets at End of Year | | | | | \$40,799,592 |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2003*

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--|---------------------------|---------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,219,913 | \$1,300,307 | \$2,602,873 | \$8,123,093 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 572,729 | 0 | 572,729 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 454,539 | 0 | 0 | 454,539 |
| Receivables: | | | | |
| Taxes | 2,370,341 | 0 | 695,935 | 3,066,276 |
| Accounts | 87,282 | 0 | 135 | 87,417 |
| Intergovernmental | 86,216 | 252,515 | 263,283 | 602,014 |
| Interfund | 138,307 | 0 | 0 | 138,307 |
| Materials and Supplies Inventory | 0 | 0 | 15,622 | 15,622 |
| Prepaid Items | 120,028 | 0 | 24,514 | 144,542 |
| Total Assets and Other Debits | <u>\$7,476,626</u> | <u>\$2,125,551</u> | <u>\$3,602,362</u> | <u>\$13,204,539</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$31,696 | \$235 | \$47,334 | \$79,265 |
| Contracts Payable | 28,179 | 529,881 | 101,930 | 659,990 |
| Accrued Wages and Benefits Payable | 933,432 | 0 | 203,214 | 1,136,646 |
| Interfund Payable | 0 | 0 | 138,307 | 138,307 |
| Intergovernmental Payable | 269,142 | 0 | 48,668 | 317,810 |
| Retainage Payable | 0 | 563,811 | 0 | 563,811 |
| Deferred Revenue | 2,160,160 | 252,515 | 789,125 | 3,201,800 |
| Total Liabilities | <u>3,422,609</u> | <u>1,346,442</u> | <u>1,328,578</u> | <u>6,097,629</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 219,912 | 1,132,126 | 113,604 | 1,465,642 |
| Reserved for Budget Stabilization | 56,688 | 0 | 0 | 56,688 |
| Reserved for Bus Purchases | 397,851 | 0 | 0 | 397,851 |
| Reserved for Property Taxes | 251,382 | 0 | 64,505 | 315,887 |
| Unreserved, Designated | 55,540 | 0 | 0 | 55,540 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 3,072,644 | 0 | 0 | 3,072,644 |
| Special Revenue Funds | 0 | 0 | 1,662,820 | 1,662,820 |
| Capital Project Funds (Deficit) | 0 | (353,017) | 94,249 | (258,768) |
| Debt Service Fund | 0 | 0 | 338,606 | 338,606 |
| Total Fund Balances | <u>4,054,017</u> | <u>779,109</u> | <u>2,273,784</u> | <u>7,106,910</u> |
| Total Liabilities and Fund Balances | <u>\$7,476,626</u> | <u>\$2,125,551</u> | <u>\$3,602,362</u> | <u>\$13,204,539</u> |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003*

| | | |
|--|-------------|---------------------|
| Total Governmental Fund Balances | | \$7,106,910 |
| Amounts reported for governmental activities in the statement of net assets are different because | | |
| Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 37,003,184 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds: | | |
| Property Taxes | 440,429 | |
| Grants | 448,853 | |
| Miscellaneous Receivables | 2,558 | 891,840 |
| Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | | (124,485) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| School Construction Bonds | (3,300,000) | |
| Energy Conservation Loans | (10,000) | |
| Accrued Interest Payable | (10,752) | |
| Vacation Benefits Payable | (21,005) | |
| Sick Leave Benefits Payable | (736,100) | (4,077,857) |
| Net Assets of Governmental Activities | | \$40,799,592 |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

| | General | Classroom Facilities | Other Governmental Funds | Totals Governmental Funds |
|---|--------------------|-------------------------|--------------------------------|---------------------------------|
| Revenues | | | | |
| Property Taxes | \$2,180,986 | \$0 | \$600,538 | \$2,781,524 |
| Intergovernmental | 8,999,469 | 1,293,867 | 2,278,017 | 12,571,353 |
| Interest | 81,861 | 33,021 | 11,487 | 126,369 |
| Charges for Services | 0 | 0 | 270,667 | 270,667 |
| Tuition and Fees | 10,164 | 0 | 8,000 | 18,164 |
| Extracurricular | 0 | 0 | 117,839 | 117,839 |
| Rent | 3,320 | 0 | 0 | 3,320 |
| Gifts and Donations | 891 | 0 | 38,509 | 39,400 |
| Miscellaneous | 141,382 | 0 | 7,407 | 148,789 |
| <i>Total Revenues</i> | <u>11,418,073</u> | <u>1,326,888</u> | <u>3,332,464</u> | <u>16,077,425</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,370,950 | 0 | 627,804 | 5,998,754 |
| Special | 1,331,277 | 0 | 491,401 | 1,822,678 |
| Vocational | 250,965 | 0 | 0 | 250,965 |
| Adult/Continuing | 4,631 | 0 | 0 | 4,631 |
| Support Services: | | | | |
| Pupils | 526,421 | 0 | 103,961 | 630,382 |
| Instructional Staff | 661,253 | 0 | 313,886 | 975,139 |
| Board of Education | 350,075 | 0 | 1,000 | 351,075 |
| Administration | 945,428 | 0 | 97,258 | 1,042,686 |
| Fiscal | 319,857 | 0 | 12,335 | 332,192 |
| Operation and Maintenance of Plant | 739,741 | 0 | 23,883 | 763,624 |
| Pupil Transportation | 692,146 | 0 | 18,993 | 711,139 |
| Central | 87,010 | 0 | 1,496 | 88,506 |
| Operation of Non-Instructional Services | 39,820 | 0 | 54,252 | 94,072 |
| Food Service Operations | 0 | 0 | 653,208 | 653,208 |
| Extracurricular Activities | 131,584 | 0 | 113,422 | 245,006 |
| Capital Outlay | 0 | 2,642,091 | 428,592 | 3,070,683 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 0 | 165,000 | 165,000 |
| Interest and Fiscal Charges | 0 | 0 | 172,536 | 172,536 |
| <i>Total Expenditures</i> | <u>11,451,158</u> | <u>2,642,091</u> | <u>3,279,027</u> | <u>17,372,276</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(33,085)</u> | <u>(1,315,203)</u> | <u>53,437</u> | <u>(1,294,851)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 68,150 | 0 | 0 | 68,150 |
| Transfers In | 0 | 0 | 95,426 | 95,426 |
| Transfers Out | (95,426) | 0 | 0 | (95,426) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(27,276)</u> | <u>0</u> | <u>95,426</u> | <u>68,150</u> |
| <i>Net Change in Fund Balance</i> | <u>(60,361)</u> | <u>(1,315,203)</u> | <u>148,863</u> | <u>(1,226,701)</u> |
| <i>Fund Balances at Beginning of Year - Restated (See Note 3)</i> | <u>4,114,378</u> | <u>2,094,312</u> | <u>2,124,921</u> | <u>8,333,611</u> |
| <i>Fund Balances at End of Year</i> | <u>\$4,054,017</u> | <u>\$779,109</u> | <u>\$2,273,784</u> | <u>\$7,106,910</u> |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$1,226,701)

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

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

| | | |
|-------------------------|------------------|-----------|
| Capital Asset Additions | 4,600,716 | |
| Depreciation Expense | <u>(896,135)</u> | 3,704,581 |

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

| | | |
|--|--------------------|-------------|
| Proceeds from the sale of capital assets | (68,150) | |
| Gain on Disposal of Fixed Assets | <u>(1,098,272)</u> | (1,166,422) |

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

| | | |
|---------------------------|-----------------|-------------|
| Grants | (1,258,218) | |
| Miscellaneous Receivables | 2,558 | |
| Delinquent Taxes | <u>(79,714)</u> | (1,335,374) |

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

165,000

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

3,728

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

| | | |
|-----------------------------|---------------|----------------|
| Intergovernmental Payables | (24,489) | |
| Sick Leave Benefits Payable | 250,474 | |
| Vacation Benefits Payable | <u>27,083</u> | <u>253,068</u> |

Change in Net Assets of Governmental Activities \$397,880

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003*

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property Taxes | \$2,299,193 | \$2,106,823 | \$1,999,657 | (\$107,166) |
| Intergovernmental | 9,253,623 | 9,455,485 | 8,974,546 | (480,939) |
| Interest | 84,407 | 80,612 | 81,861 | 1,249 |
| Tuition and Fees | 11,503 | 11,754 | 11,156 | (598) |
| Rent | 3,868 | 3,950 | 3,755 | (195) |
| Gits and Donations | 919 | 938 | 891 | (47) |
| Miscellaneous | 63,668 | 65,059 | 61,745 | (3,314) |
| Total Revenues | 11,717,181 | 11,724,621 | 11,133,611 | (591,010) |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,097,714 | 5,636,878 | 5,636,878 | 0 |
| Special | 1,316,078 | 1,307,711 | 1,307,711 | 0 |
| Vocational | 272,732 | 238,683 | 238,683 | 0 |
| Adult/Continuing | 17,759 | 4,631 | 4,631 | 0 |
| Support Services: | | | | |
| Pupils | 495,377 | 529,465 | 529,465 | 0 |
| Instructional Staff | 795,271 | 660,971 | 660,971 | 0 |
| Board of Education | 313,928 | 333,301 | 333,301 | 0 |
| Administration | 907,845 | 926,830 | 926,830 | 0 |
| Fiscal | 332,468 | 316,886 | 316,886 | 0 |
| Operation and Maintenance of Plant | 675,072 | 751,345 | 751,345 | 0 |
| Pupil Transportation | 805,462 | 701,678 | 701,678 | 0 |
| Central | 93,560 | 85,966 | 85,966 | 0 |
| Operation of Non-Instructional Services | 39,820 | 39,820 | 39,820 | 0 |
| Extracurricular Activities | 144,766 | 124,041 | 124,041 | 0 |
| Total Expenditures | 12,307,852 | 11,658,206 | 11,658,206 | 0 |
| Excess of Revenues Over (Under) Expenditures | (590,671) | 66,415 | (524,595) | (591,010) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | 0 | 68,150 | 68,150 | 0 |
| Advances In | 0 | 206,650 | 166,650 | (40,000) |
| Operating Transfers Out | (99,160) | (95,426) | (95,426) | 0 |
| Advances Out | (26,766) | (256,089) | (226,089) | 30,000 |
| Refund of Prior Year Receipts | (5,951) | (5,951) | (5,951) | 0 |
| Total Other Financing Sources (Uses) | (131,877) | (82,666) | (92,666) | (10,000) |
| Net Change in Fund Balance | (722,548) | (16,251) | (617,261) | (601,010) |
| Fund Balance at Beginning of Year | 4,844,987 | 4,791,337 | 4,791,337 | 0 |
| Prior Year Encumbrances Appropriated | 265,063 | 265,063 | 265,063 | 0 |
| Fund Balance at End of Year | \$4,387,502 | \$5,040,149 | \$4,439,139 | (\$601,010) |

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2003

Assets

| | |
|--|------------------------|
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$49,514</u></u> |
|--|------------------------|

Liabilities

| | |
|-----------------|------------------------|
| Due to Students | <u><u>\$49,514</u></u> |
|-----------------|------------------------|

See accompanying notes to the general purpose external financial statements

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by state statute and federal guidelines. The School District serves an area of approximately 22 square miles. It is located in Jackson County and includes all of the territory of the City of Wellston, and portions of Coalton Village and Milton Township. It is staffed by 68 classified employees and 131 certified full-time teaching and administrative personnel who provide services to 1,861 students and other community members. The School District currently operates three instructional buildings, one administrative building, a maintenance garage, and a bus garage.

Reporting Entity

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

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

The School District participates in three jointly governed organizations and an insurance purchasing pool. These organizations are the Southeast Ohio Voluntary Educational Consortium, the Gallia-Jackson-Vinton Joint Vocational School District, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan, which are presented in Notes 15 and 16 to the basic financial statements.

The following activities are included within the reporting entity.

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using two categories, governmental and fiduciary.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 are the School District's major governmental funds:

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

Classroom Facilities Capital Projects Fund The Classroom Facilities Capital Projects Fund accounts for grant and debt proceeds used for the construction and renovation of the School District's school facilities.

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

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

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using 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 fund financial statements for governmental funds.

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

E. Cash and Cash Equivalents

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

The School District has a segregated bank account for the retainage monies held separate from the School District's central bank account. This account is presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are kept separate from the School District treasury.

During fiscal year 2003, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$81,861, which includes \$40,267 assigned from other School District funds.

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

F. Restricted Assets

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expenses is reported in the fiscal year in which the services are consumed.

H. Inventory

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

I. Capital Assets

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

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

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

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

J. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

L. Accrued Liabilities and Long-term Obligations

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

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

M. 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 on the statement of net assets.

N. Fund Balance Reserves

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

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

O. Estimates

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

P. Designation of Fund Balance

Designations represent tentative plans for future use of financial resources. The School District has a designation of fund balance on the balance sheet for money set aside for budget stabilization in excess of statutory requirements.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Q. Net Assets

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

S. Budgetary Process

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

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

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 3 – Changes in Accounting Principle and Restatement of Fund Balance

Changes in Accounting Principle For fiscal year 2003, the School 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 Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and find financial statements which presents information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District’s programs between business-type activities, if any, and 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 the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

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 comparisons for the general and each major special revenue fund. This Statement had no effect on the budgetary presentation of the School District for Fiscal Year 2003.

Restatement of Fund Balance It was determined that the Food Service and Uniform School Supply Enterprise Funds should be reclassified as special revenue funds. This restatement and the implementation of Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

| | General | Classroom Facilities | Nonmajor | Total |
|--|--------------------|-------------------------|--------------------|---------------------|
| Fund Balances, June 30, 2002 | \$4,107,980 | \$2,094,312 | \$2,007,636 | \$8,209,928 |
| Fund Reclassification | 0 | 0 | 66,086 | 66,086 |
| Intergovernmental Payable | 0 | 0 | 15,657 | 15,657 |
| Accounts Payable Overstatement | 0 | 0 | 523 | 523 |
| Interpretation 6 | 6,398 | 0 | 35,019 | 41,417 |
| Adjusted Fund Balances, June 30, 2002 | <u>\$4,114,378</u> | <u>\$2,094,312</u> | <u>\$2,124,921</u> | 8,333,611 |
| GASB 34 Adjustments: | | | | |
| Capital Assets | | | | 34,465,025 |
| Pension Obligation | | | | (99,996) |
| Vacation Benefits Payable | | | | (48,088) |
| Accrued Interest Payable | | | | (14,480) |
| Long-Term Liabilities | | | | (4,461,574) |
| Long-Term (Deferred) Assets | | | | <u>2,227,214</u> |
| Governmental Activities | | | | |
| Net Assets, June 30, 2002 | | | | <u>\$40,401,712</u> |

| | Business-Type Activities |
|------------------------------------|-----------------------------|
| Fund Equity, June 20, 2002 | \$102,889 |
| Fund Reclassification | <u>(102,889)</u> |
| Adjusted Net Assets, June 30, 2002 | <u>\$0</u> |

Note 4 - Accountability

Fund Deficit

At June 30, 2003, the Handicapped Preschool Special Revenue Fund had a deficit fund balance of \$63 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

| Net Change in Fund Balance | |
|----------------------------|---------------------------|
| GAAP Basis | (\$60,361) |
| Revenue Accruals | (284,462) |
| Expenditure Accruals | 26,846 |
| Prepaid Items: | |
| Beginning of Year | 115,496 |
| End of Year | (120,028) |
| Advances | (59,439) |
| Encumbrances | <u>(235,313)</u> |
| Budget Basis | <u><u>(\$617,261)</u></u> |

Note 6 - Deposits and Investments

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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 two percent 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;
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 Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests 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 School District, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$3,750,730 and the bank balance was \$3,996,692. Of the bank balance:

1. \$252,357 was covered by federal depository insurance; and
2. \$3,744,335 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | |
|----------|---------------|
| | Fair Value |
| STAROhio | \$5,449,145 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/ Deposits | Investments |
|------------------|---|-------------|
| GASB Statement 9 | \$9,199,875 | \$0 |
| STAROhio | (5,449,145) | 5,449,145 |
| GASB Statement 3 | \$3,750,730 | \$5,449,145 |

Note 7 - Property Taxes

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 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.

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 School District prior to June 30.

The School District receives property taxes from Jackson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 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.

The amount available as an advance at June 30, 2003, was \$251,382 in the General Fund, \$31,304 in the Bond Retirement Debt Service Fund, \$28,458 in the Permanent Improvements Capital Projects Fund, and \$4,743 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2002, was \$49,377 in the General Fund, \$6,149 in the Bond Retirement Debt Service Fund, \$5,590 in the Permanent Improvements Capital Projects Fund, and \$932 in the Classroom Facilities Maintenance Special Revenue Fund.

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

| | 2002 Second Half Collections | | 2003 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| Real Property | \$70,930,560 | 72.68% | \$77,027,580 | 79.71% |
| Public Utility Tangible Personal Property | 7,040,660 | 7.21% | 6,703,110 | 6.94% |
| Tangible Personal Property | 19,624,459 | 20.11% | 12,903,138 | 13.35% |
| Total | \$97,595,679 | 100.00% | \$96,633,828 | 100.00% |
| Tax Rate per \$1,000 of Assessed Valuation | \$33.30 | | \$27.30 | |

Note 8 - Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

| Intergovernmental Receivables | Amounts |
|---|---------------|
| General Fund: | |
| Community Alternative Funding System | \$63,566 |
| Miscellaneous | 22,650 |
| Total General Fund | 86,216 |
| Special Revenue Funds: | |
| School Lunch and Breakfast Program | 30,897 |
| Public Preschool | 861 |
| Title VI-B | 33,447 |
| Title I | 156,834 |
| Innovative Programs | 1,302 |
| Drug Free Schools | 2,836 |
| Handicapped Preschool | 2,454 |
| Title II-A | 31,661 |
| Title VI-B Rural | 2,319 |
| Title II-D Technology | 672 |
| Total Special Revenue Funds | 263,283 |
| Capital Projects Fund: | |
| Ohio School Facilities Commission Grant | 252,515 |
| Total Intergovernmental Receivables | \$602,014 |

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

On December 16, 1998, the School District was awarded \$31,072,412 for the construction of new elementary, middle, and high school under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State initially paid for a portion of the estimated project costs. Historically, the School District repaid the State. If the School District's adjusted valuation per pupil was less than the state-wide median adjusted valuation per pupil, in lieu of repayment, the School District set-aside the funds that would have been used for repayment to the State for facilities maintenance. As part of the process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. Legislation effective September 15, 2000, eliminated any possibility that money received by the School District under this program will need to be repaid. As of the end of fiscal year 2003, the School District had received \$30,819,897 of the amount awarded under this program, \$1,293,867 being that portion received during fiscal year 2003. The remaining amount of \$252,515 is recorded as a receivable and a deferred revenue on the balance sheet.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the School District contracted with Selective Insurance Company of South Carolina for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy for both property and general liability. The School District contracted with Great American Alliance Insurance for boiler and machinery insurance. There is a \$1,000 deductible with a \$48,135,966 limit of liability. The School District contracted with Waugh Insurance for builder's risk insurance. There is a \$5,000 deductible with a \$14,346,968 project limit for the construction of the Middle School, and \$13,208,481 project limit for the construction of the High School.

Professional liability is protected by National Union Fire Insurance of Pittsburgh, PA with a \$1,000,000 aggregate limit with a \$10,000 deductible. Fleet insurance is covered by The Nationwide Insurance Company and holds a \$100 deductible for comprehensive and collision. Automobile liability has a \$2,000,000 combined single limit of liability.

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 10 – Capital Assets

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

| | Balance at 06/30/02 | Additions | Deletions | Balance at 06/30/03 |
|---|------------------------|--------------|--------------|------------------------|
| Capital Assets: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land and Land Improvements | \$343,308 | \$9,529 | \$39,648 | \$313,189 |
| Construction in Progress | 31,399,983 | 0 | 31,399,983 | 0 |
| Total Capital Assets not being Depreciated | 31,743,291 | 9,529 | 31,439,631 | 313,189 |
| Depreciable Capital Assets: | | | | |
| Buildings and Improvements | 2,762,442 | 34,191,992 | 2,465,115 | 34,489,319 |
| Furniture, Fixtures, and Equipment | 2,409,955 | 1,621,378 | 1,447,718 | 2,583,615 |
| Vehicles | 1,192,384 | 177,800 | 224,640 | 1,145,544 |
| Textbooks | 1,284,221 | 0 | 0 | 1,284,221 |
| Total Depreciable Capital Assets | 7,649,002 | 35,991,170 | 4,137,473 | 39,502,699 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 1,779,486 | 604,062 | 969,586 | 1,413,962 |
| Furniture, Fixtures, and Equipment | 1,552,424 | 193,656 | 1,159,723 | 586,357 |
| Vehicles | 768,100 | 84,668 | 250,488 | 602,280 |
| Textbooks | 827,258 | 13,749 | 630,902 | 210,105 |
| Total Accumulated Depreciation | 4,927,268 | 896,135 * | 3,010,699 | 2,812,704 |
| Total Capital Assets being Depreciated, Net | 2,721,734 | 35,095,035 | 1,126,774 | 36,689,995 |
| Capital Assets, Net | \$34,465,025 | \$35,104,564 | \$32,566,405 | \$37,003,184 |

*Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|-----------|
| Instruction: | |
| Regular | \$304,731 |
| Special | 110,248 |
| Vocational | 18,035 |
| Support Services: | |
| Pupils | 29,561 |
| Instructional Staff | 91,115 |
| Administration | 65,004 |
| Fiscal | 10,821 |
| Operation and Maintenance of Plant | 35,678 |
| Pupil Transportation | 141,402 |
| Central | 3,685 |
| Food Service Operation | 82,033 |
| Non-Instructional Services | 3,685 |
| Extracurricular Activities | 137 |
| Total Depreciation Expense | \$896,135 |

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$151,282, \$83,745, and \$45,532, respectively; 53.85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$785,944, \$540,696, and \$527,649 respectively; 83.04 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$0 made by the School District and \$2,518 made by the plan members.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$60,457 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$152,678.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 13- Employee Benefits

A. Insurance Benefits

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

Health, dental, and vision insurance is provided by Medical Mutual Insurance. Monthly premiums for this coverage are \$993.29 for family coverage and \$334.32 for single coverage. The School District pays 99% of both family and single coverage premiums.

B. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave accumulation is unlimited. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 56 days, and at 30 percent for classified employees up to a maximum of 60 days.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

| | Principal Outstanding | | | Principal Outstanding | | Amounts Due in |
|---------------------------------|--------------------------|-----------------|------------------|--------------------------|---------|-------------------|
| | 06/30/02 | Additions | Deductions | 6/30/03 | 6/30/03 | One Year |
| Governmental Activities: | | | | | | |
| 1993 5.95% Energy | | | | | | |
| Conservation Note | \$20,000 | \$0 | \$10,000 | \$10,000 | | \$10,000 |
| 1992 5.95% Energy | | | | | | |
| Conservation Note | 65,000 | 0 | 65,000 | 0 | | 0 |
| 1999 3.30%-5.85% | | | | | | |
| School Construction | | | | | | |
| General Obligation Bonds | 3,390,000 | 0 | 90,000 | 3,300,000 | | 100,000 |
| Sick Leave Benefits | 986,574 | 93,917 | 344,391 | 736,100 | | 65,182 |
| Total Governmental Activities | | | | | | |
| Long-Term Liabilities | <u>\$4,461,574</u> | <u>\$93,917</u> | <u>\$509,391</u> | <u>\$4,046,100</u> | | <u>\$175,182</u> |

The School District issued School Building Improvement General Obligation Bonds for \$3,656,000 as a result of the School District being approved for a \$31,072,412 school facilities loan through the State Department of Education for the additions to the elementary school, and the construction of a new middle and high school. The School District issued the general obligation bonds on June 9, 1999, to provide the local required match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 5.8 mill levy. 5.3 mills will be used to repay the debt issue which provides the matching funds required of the School District as a condition of the State Loan.

On November 11, 1992, and September 1, 1993, the School District issued unvoted general obligation energy conservation notes in the amounts of \$100,000 and \$500,000, respectively. Both notes have an interest rate of 5.95% and was issued for the purpose of installing energy conservation improvements for the School District, under authority of Ohio Revised Code sections 133.06(G) and 3313.372. Both notes were issued for a ten year period with final maturity during fiscal year 2004. The 1993 debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. The General Fund allocates tax revenues to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

Wellston City School District was notified by the Ohio School Facilities Commission that they would not be responsible for repaying the \$31,072,412 classroom facilities grant to the State. In lieu of the repayment, the School District must set aside .5 mill of the 5.80 mill levy mentioned above for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. The School District received \$1,293,867 during fiscal year 2003 under this program which was recorded as intergovernmental revenue in the capital projects funds.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Food Service, Uniform School Supply, Public Preschool, Disadvantaged Pupil Impact Aid, Miscellaneous State Grants, Title VI-B Idea, Title I, and Handicapped Special Revenue Funds.

The School District's overall legal debt margin was \$5,756,955, with an unvoted debt margin of \$96,634 at June 30, 2003. Principal and interest requirements to retire school facilities bonds outstanding at June 30, 2003, are as follows:

| Fiscal Year Ended December 31, | Principal | Interest | Total |
|-----------------------------------|--------------------|--------------------|--------------------|
| 2004 | \$100,000 | \$165,953 | \$265,953 |
| 2005 | 100,000 | 161,878 | 261,878 |
| 2006 | 105,000 | 157,623 | 262,623 |
| 2007 | 115,000 | 152,916 | 267,916 |
| 2008 | 120,000 | 147,745 | 267,745 |
| 2009 - 2013 | 720,000 | 644,039 | 1,364,039 |
| 2014 - 2018 | 995,000 | 405,292 | 1,400,292 |
| 2019 - 2021 | 1,045,000 | 108,125 | 1,153,125 |
| | <u>\$3,300,000</u> | <u>\$1,943,571</u> | <u>\$5,243,571</u> |

Principal and interest requirements to retire energy conservation note outstanding at June 30, 2003, are as follows:

| Fiscal Year Ended December 31, | Principal | Interest | Total |
|-----------------------------------|-----------------|--------------|-----------------|
| 2004 | <u>\$10,000</u> | <u>\$298</u> | <u>\$10,298</u> |

Note 15 - Jointly Governed Organizations

A. Southeast Ohio Voluntary Educational Consortium

The Southeast Ohio Voluntary Educational Consortium (SEOVEC) is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to its members. Each member pays a fee annually for services provided by SEOVEC.

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2003, the Wellston City School District paid \$20,477 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Gallia-Jackson-Vinton Joint Vocational School District

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

C. South Eastern Ohio Special Education Regional Resource Center

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

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

Note 16 - Insurance Purchasing Pool

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 17 – Interfund Activity

Transfers made during fiscal year 2003 were as follows:

| | Transfers- In | Transfers- Out |
|--------------------------------|------------------------|------------------------|
| General Fund | <u>\$0</u> | <u>\$95,426</u> |
| Special Revenue Funds: | | |
| Food Service | 4,758 | 0 |
| Uniform School Supply | 11,226 | 0 |
| Public School Support | 115 | 0 |
| Auxiliary | 5 | 0 |
| Public Preschool | 30 | 0 |
| Dwight D. Eisenhower | 45 | 0 |
| Title VI-B | 83 | 0 |
| Title I | 327 | 0 |
| Title VI | <u>35</u> | <u>0</u> |
| Total Special Revenue Funds | <u>16,624</u> | <u>0</u> |
| Debt Service Fund | <u>77,826</u> | <u>0</u> |
| Capital Projects Funds: | | |
| Permanent Improvements | 963 | 0 |
| Technology Equity | <u>13</u> | <u>0</u> |
| Total Capital Projects Funds | <u>976</u> | <u>0</u> |
| Total All Funds | <u><u>\$95,426</u></u> | <u><u>\$95,426</u></u> |

Note 18 - Contractual Commitments

As of June 30, 2003, the School District had contractual purchase commitments for the completion of construction of the new elementary, middle, and high schools as follows:

| Project | Fund | Contract Amount | Amount Expended | Balance at 06/30/03 |
|-------------------|--|----------------------------|----------------------------|---------------------------|
| Elementary School | Classroom Facilities Capital Projects Fund | \$6,386,572 | \$5,895,803 | \$490,769 |
| Middle School | Classroom Facilities Capital Projects Fund | 11,735,406 | 11,583,871 | 151,535 |
| High School | Classroom Facilities Capital Projects Fund | 16,174,726 | 15,770,029 | 404,697 |
| Total | | <u><u>\$34,296,704</u></u> | <u><u>\$33,249,703</u></u> | <u><u>\$1,047,001</u></u> |

Note 19 - Contingencies

A. Grants

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

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

Note 20 - Set-Aside Calculations

The Wellston City School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was required to set-aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continue to be set-aside.

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

| | <u>Textbooks</u> | <u>Capital Improvements</u> | <u>Budget Stabilization</u> |
|---|--------------------|---------------------------------|---------------------------------|
| Set-Aside Reserve Balance as of as of June 30, 2002 | (\$80,621) | \$0 | \$56,688 |
| Current Year Set-Aside Requirement | 245,486 | 245,486 | 0 |
| Current Year Offsets | 0 | (51,133) | |
| Qualifying Disbursements | <u>(430,988)</u> | <u>(4,600,716)</u> | <u>0</u> |
| Totals | <u>(\$266,123)</u> | <u>(\$4,406,363)</u> | <u>\$56,688</u> |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>(\$266,123)</u> | <u>(\$3,300,000)</u> | <u>\$56,688</u> |
| Set-Aside Reserve Balance as of June 30, 2003 | <u>\$0</u> | <u>\$0</u> | <u>\$56,688</u> |

The School District had qualifying expenditures during the fiscal year that reduced the textbook and capital improvement set-aside amounts below zero. The extra amounts in the textbooks and a portion of the capital improvements set-aside may be used to reduce the set-aside requirements of future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$56,688.

Wellston City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 21 – 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 decision 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL 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 |
|--|---------------------------|----------------------------------|-------------------|---------------------|-----------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | 10.550 | N/A | \$ - | \$ 103,163 | \$ - | \$ 40,882 |
| School Breakfast Program | 10.553 | 05-PU-02 05-PU-03 | 19,435 46,930 | | 66,365 | |
| Total School Breakfast Program | | | <u>66,365</u> | <u>0</u> | <u>66,365</u> | <u>0</u> |
| National School Lunch Program | 10.555 | LL-P4-02 LL-P4-03 | 52,732 165,310 | | 52,732 165,310 | |
| Total National School Lunch Program | | | <u>218,042</u> | <u>0</u> | <u>218,042</u> | <u>0</u> |
| Total Nutrition Cluster | | | <u>284,407</u> | <u>103,163</u> | <u>284,407</u> | <u>40,882</u> |
| Total United States Department of Agriculture | | | 284,407 | 103,163 | 284,407 | 40,882 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-01 C1-S1-02 C1-S1-03 | 58,105 532,908 | | 77,274 73,916 339,034 | |
| Total Title I Grants to Local Educational Agencies | | | <u>591,013</u> | <u>0</u> | <u>490,224</u> | <u>0</u> |
| Special Education Cluster: | | | | | | |
| Special Education - Grants to States | 84.027 | 6B-SF-02P 6B-SF-03P | 187,943 | | 50,360 162,865 | |
| Total Special Education - Grants to States | | | <u>187,943</u> | <u>0</u> | <u>213,225</u> | <u>0</u> |
| Special Education Preschool Grants | 84.173 | PG-S1-02 PG-S1-03 | 11,158 | | 2,604 11,606 | |
| Total Special Education Preschool Grants | | | <u>11,158</u> | <u>0</u> | <u>14,210</u> | <u>0</u> |
| Total Special Education Cluster | | | 199,101 | 0 | 227,435 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DR-S1-01 DR-S1-02 DR-S1-03 | 12,580 | | 453 3,552 9,100 | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | <u>12,580</u> | <u>0</u> | <u>13,105</u> | <u>0</u> |
| Continuous Improvement Grant | 84.276 | G2-S1-01 | 1,000 | | 1,000 | |
| Eisenhower Professional Development State Grants | 84.281 | MS-S1-01 MS-S1-02 | 1,193 | | 5,622 1,938 | |
| Total Eisenhower Professional Development State Grants | | | <u>1,193</u> | <u>0</u> | <u>7,560</u> | <u>0</u> |
| Innovative Education Program Strategies | 84.298 | C2-S1-01 C2-S1-02 C2-S1-03 | 6,115 11,573 | | 3,087 2,739 12,116 | |
| Total Innovative Education Program Strategies | | | <u>17,688</u> | <u>0</u> | <u>17,942</u> | <u>0</u> |
| Education Technology State Grants | 84.318 | TJ-S1-03 | 14,741 | | 14,688 | |
| Comprehensive School Reform Demonstration | 84.332 | RF-S1-02 | 30,000 | | 64,285 | |
| Reading Excellence Tutorial | 84.338 | RN-S2-00 | 53,650 | | 9,105 | |
| Class Size Reduction | 84.340 | CR-S1-02 | | | 13,166 3,898 | |
| Total Class Size Reduction | | | <u>0</u> | <u>0</u> | <u>17,064</u> | <u>0</u> |
| School Renovation Grants | 84.352 A | AT-S3-02 | 1,536 | | 1,360 | |
| Rural Education Grants | 84.358 | RU-S1-03 | 32,702 | | | |
| Improving Teacher Quality State Grants | 84.367 | TR-S1-03 | 118,208 | | 76,408 | |
| Total U.S. Department of Education | | | 1,073,412 | 0 | 940,176 | 0 |

WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| 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 HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i> | | | | | | |
| Medical Assistance Program | 93.778 | N/A | 153,441 | | 165,816 | |
| Total U. S. Department of Health and Human Services | | | 153,441 | 0 | 165,816 | 0 |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | | | | | |
| <i>Passed through the Ohio Emergency Management Agency</i> | | | | | | |
| Public Assistance Grants | 83.544 | DR-1453 | | | 2,485 | |
| Total Federal Emergency Management Agency | | | 0 | 0 | 2,485 | 0 |
| Total Federal Awards Receipts and Expenditures | | | \$ 1,511,260 | \$ 103,163 | \$ 1,392,884 | \$ 40,882 |

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

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of Wellston City School District, Jackson County, Ohio (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 4, 2004, wherein we noted the School District has adopted Governmental Accounting Statements No. 34, 37 and 38 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 School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 certain instances of noncompliance that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated February 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered School 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated February 4, 2004.

This report is intended for the information and use of management, the Board of Education, 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.

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

Betty Montgomery
Auditor of State

February 4, 2004



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of Wellston City School District, Jackson County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School 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 School 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 School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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www.auditor.state.oh.us

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

This report is intended for the information and use of management, the Board of Education, and federal parties.

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

Betty Montgomery
Auditor of State

February 4, 2004

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.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)? | Yes |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I Grants to Local Educational Agencies CFDA # 84.010 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 9.38 states that public money must be deposited with the treasurer of the public office *or* to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection.

If the amount of daily receipts does not exceed \$1,000 **and** the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. Only the Board of Education may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Student Activity Handbook page 16, sections 4.1 and 4.2 states that "the activity advisor/coach is responsible for collecting or supervising the collection of all money collected during that day and depositing it with the Treasurer. This should be completed between 3:00 PM and 3:45 PM with the Treasurer's office and must be done once every 24 hours. No money is to be left in the building unsecured during the day or kept in the building overnight. All receipts must be deposited with the Treasurer's office on a daily basis."

Monies collected from several student activity fundraisers were not deposited to the Treasurer's office within 24 hours. Per review of the Class of 2003 and Class of 2004 records, deposits were not made in a timely manner.

Receipt books for the Hoops Classic recorded receipts throughout September, October, and November; however, no deposits were made for the Hoops Classic until November 19, 2002. Although the last receipt was issued December 9, 2002, deposits continued to be made through January 8, 2003. Also, 17% of the gate receipts tested for regular season games were not deposited timely.

Failure to properly safeguard cash collections increases the risk of loss or theft of public funds.

We recommend all cash collections be deposited to the Treasurer's Office within 24 hours as required by the Revised Code and District Policy or that the Board of Education adopt/revise the policy to define the safeguarding process and procedures so that these receipts, if less than \$1,000 could be held for up to 3 business days.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|---|

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code Section 149.351(A) states, in pertinent part, that all records which are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under section 149.38 to 149.42 of the Ohio Rev. Code.

The Student Activity Handbook, page 15 section 3.5.5 states that activity advisors/coaches must issue receipts for all money received from students.

Per review of Student Activity records, we noted that very few duplicate receipts were issued for the Future Farmers of America student activity. Of those student activities which did utilize duplicate receipts (such as the Class of 2003 and the Class of 2004), many were not maintained for donations and other various fund raisers; many were not pre-numbered, and others, which were pre-numbered did not have books in sequential order or could not be located. We noted several receipts issued that were not dated, or did not have a detailed description as to the purpose of the receipt (i.e. fundraiser description, donation, etc.).

This could allow errors and/or irregularities to occur and remain undetected for an extended period of time, and also allows the opportunity for theft

We recommend the School District require supporting documentation (i.e., pre-numbered duplicate receipts for all money collected, cash accountability forms showing a daily total of money collected) for all fund raising events, in order to ensure that all monies collected have been recorded in the School District's records. In addition, we recommend that all student activity advisors be required to submit their records to the Treasurer's office each year for review.

FINDING NUMBER 2003-003

Reportable Condition

Per review of the Class of 2003 records, we noted purchase receipts from various stores (Wal-Mart, Hamden General Store, Dollar General, etc.) which were not processed through the School District's purchasing system. Per inquiry of the Activity Advisor, cash received by the Class of 2003 Advisor was not deposited to the Treasurer's Office and were held and subsequently expended by the Advisor. Upon further review, these purchases appeared to be related to the Student Activity. However, the Advisor overrode the School District's purchase order process and thus eliminated an important internal control procedure in place over the purchasing process.

We recommend that all monies be deposited to the Treasurer's Office daily with detailed documentation as to the source of the money and that all expenditures follow the purchase order process as required by both the Ohio Revised Code and the School District.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
FOR FISCAL THE YEAR ENDED JUNE 30, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|---|
| 2002-001 | Ohio Rev. Code §135.18 was cited for failure to maintain adequate collateral for depository balances. | Yes | Corrected |
| 2002-002 | Ohio Rev. Code §149.351(A) was cited as a result of the non-maintenance of Student Activity records, specifically duplicate receipt books. | No | Partially corrected in some activities, however, noncompliance occurred relating to the following activities: FFA, Class of 2003 and Class of 2004. We have repeated this citation as Finding Number 2003-002 |
| 2002-003 | Reportable Condition relating to cash collections by the Class of 2003 not being deposited with the Treasurer and being subsequently expended overriding the purchase order requirements of the District. | No | Not corrected. We have reissued the citation as Finding Number 2003-003 |



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WELLSTON CITY SCHOOL DISTRICT

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 23, 2004**