

WOLF CREEK LOCAL SCHOOL DISTRICT
ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Wolf Creek Local School District

We have reviewed the Independent Auditor's Report of the Wolf Creek Local School District, Washington County, prepared by Wolfe, Wilson, & Phillips, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 30, 2004

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**WOLF CREEK LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY**

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**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

**Board of Education
Wolf Creek Local School District
Waterford, Ohio**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Wolf Creek Local School District as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Wolf Creek Local School District as of June 30, 2004, and the changes in financial position of those activities and funds, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2004, on our consideration of Wolf Creek Local School District's internal control over financial reporting and our tests of its compliance with 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 Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

***Wolfe, Wilson, & Phillips, Inc.*
Zanesville, Ohio
October 15, 2004**

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

The discussion and analysis of the Wolf Creek Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- Net assets of governmental activities decreased \$231,872.
- General revenues accounted for \$4,581,562 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$1,024,706 or 18% of total revenues of \$5,606,268.
- Total assets of governmental activities only increased \$127,176 as cash decreased \$238,055, investments decreased \$2,618,581 while capital assets increased \$1,834,679, and taxes receivable increased \$1,143,114 due to the increased property tax valuation mainly from the completion of construction of a local electric power plant.
- The School District had \$5,838,140 in expenses related to governmental activities; \$1,024,706 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues of \$4,581,562 provided remaining funds for these programs.
- The School District has three major funds; the General Fund, Bond Retirement, and the Building Capital Projects Fund. The General Fund had \$4,606,081 in revenues and \$4,788,484 in expenditures. The General Fund's balance decreased \$182,403. The Bond Retirement Fund accounted for activity related to the \$6,600,000 in general obligation bonds for construction, including bond issuance costs, premiums, and discounts on serial, term, and capital appreciation bonds. The Building Capital Projects Fund had \$13,734 in revenues and \$1,972,899 in capital expenditures. The Building Capital Projects Fund's balance decreased by \$1,959,165.

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 Wolf Creek Local 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.

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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 2004?" 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 9. 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, Bond Retirement Fund, and the Building 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.

Wolf Creek Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

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 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$6,242,332	\$7,949,835
Capital Assets	7,470,254	5,635,575
Total Assets	13,712,586	13,585,410
Liabilities		
Long-term Liabilities	7,340,661	7,358,358
Other Liabilities	4,083,348	3,706,603
Total Liabilities	11,424,009	11,064,961
Net Assets		
Invested in Capital Assets, Net of Debt	1,658,112	1,810,073
Restricted	1,157,996	1,148,633
Unrestricted	(527,531)	(438,257)
Total Net Assets	\$2,288,577	\$2,520,449

Total assets increased \$127,176. The decrease in current assets reflects the usage of investments for capital outlay. The increase in capital assets is attributed to the completion of the additions to the elementary school and renovations of the high school totaling \$1,972,690 in fiscal year 2004. Long-term liabilities experienced no significant change since principal payments on the outstanding school improvement bonds start in fiscal year 2005. The increase of \$376,745 in other liabilities is mainly due to deferred tax revenue increasing \$1,148,683, offset by decreases in completed contracts and retainage of \$738,654.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, and comparisons to fiscal year 2003.

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Table 2
Changes in Net Assets

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues		
Charges for Services	\$363,478	\$178,510
Operating Grants, Contributions and Interest	654,203	616,985
Capital Grants and Contributions	7,025	37,360
Total Program Revenues	<u>1,024,706</u>	<u>832,855</u>
General Revenues		
Property Taxes	2,349,227	2,166,946
Payments in Lieu of Taxes	50,000	0
Grants and Entitlements	2,134,770	2,197,116
Investment Earnings	33,896	158,397
Miscellaneous	13,669	68,766
Total General Revenues	<u>4,581,562</u>	<u>4,591,225</u>
Total Revenues	<u>5,606,268</u>	<u>5,424,080</u>
Program Expenses		
Instruction:		
Regular	2,567,601	2,334,349
Special	381,039	402,472
Vocational	129,799	134,885
Support Services:		
Pupil	222,677	205,406
Instructional Staff	347,020	318,883
Board of Education	31,987	31,495
Administration	414,477	375,261
Fiscal	266,058	230,560
Operation and Maintenance of Plant	404,845	333,247
Pupil Transportation	325,758	323,393
Central	50,937	69,165
Operation of Non-Instructional Services:		
Other	6,140	6,718
Food Service Operations	187,040	181,165
Extracurricular Activities	210,677	192,798
Interest and Fiscal Charges	292,085	284,511
Total Expenses	<u>5,838,140</u>	<u>5,424,308</u>
Decrease in Net Assets	<u>(\$231,872)</u>	<u>(\$228)</u>

Wolf Creek Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Over the past two fiscal years, the School District has experienced a decline in financial stability. The School District's assessed property values had decreased \$29,570,010 due to utility deregulation from fiscal year 2002 to fiscal year 2003. However, the assessed values increased \$3,508,840 from fiscal year 2003 to 2004 due to reappraisals.

Since an increase in operating revenues from 2003 was not budgeted for fiscal year 2004, other than for wages and insurance, the School District tried to maintain operating expenses at fiscal year 2003 levels. The cash balance carryover has declined as the School District continued to provide programs without increasing tuition and fees rates. A four percent increase in salaries was given to employees at the start of the fiscal year. The School District has also seen a large percentage increase in all types of insurance.

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.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Program Expenses				
Instruction:				
Regular	\$2,567,601	\$2,246,374	\$2,334,349	\$2,151,064
Special	381,039	45,463	402,472	146,638
Vocational	129,799	113,268	134,885	114,353
Support Services:				
Pupil	222,677	197,767	205,406	184,893
Instructional Staff	347,020	301,509	318,883	277,441
Board of Education	31,987	31,987	31,495	31,495
Administration	414,477	414,477	375,261	375,261
Fiscal	266,058	266,058	230,560	230,560
Operation and Maintenance of Plant	404,845	404,845	333,247	324,232
Pupil Transportation	325,758	306,762	323,393	294,153
Central	50,937	50,663	69,165	69,165
Operation of Non-Instructional Services:				
Other	6,140	(177)	6,718	316
Food Service Operations	187,040	(1,511)	181,165	(5,841)
Extracurricular Activities	210,677	143,864	192,798	113,212
Interest and Fiscal Charges	292,085	292,085	284,511	284,511
Total	<u>\$5,838,140</u>	<u>\$4,813,434</u>	<u>\$5,424,308</u>	<u>\$4,591,453</u>

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

The dependence upon tax revenues and State subsidies for governmental activities is apparent. 67% of instructional activities are supported through taxes and other general revenues.

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,604,344 and expenditures of \$7,669,033. No significant increases or decreases from 2003 occurred in the General Fund. The Building Capital Projects Fund's fund balance decreased \$1,959,165, reflecting the use of prior year's unspent bond proceeds for additions and renovations to school buildings.

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 2004, the School District amended its General Fund budget. 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, final budget basis revenue was \$4,552,046, above original estimates of \$4,165,899. Of this \$871,945 difference, State Foundation was increased \$243,871, payments in lieu of taxes were budgeted for \$75,000, and tuition and fees were increased \$75,512.

The School District's ending unobligated General Fund balance was \$580,210.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$1,658,112 invested (net of related debt) in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land and Land Improvements	\$19,171	\$19,171
Buildings and Improvements	7,011,080	564,017
Furniture and Equipment	252,150	234,817
Vehicles	187,853	208,964
Construction in Progress	0	4,608,606
Totals	<u>\$7,470,254</u>	<u>\$5,635,575</u>

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

In fiscal year 2002, voters of the School District passed a bond issue in the amount of \$6,600,000 to construct an addition to Waterford Elementary School and for renovations to the existing elementary and high school buildings. This construction was completed in fiscal year 2004. The new addition consisted of twelve new classrooms, locker rooms, offices for staff, and a gymnasium with seating capacity of one thousand people. The construction was financed entirely by the bond issue. \$467,003 in unspent proceeds at fiscal year end is being invested for future projects. The School District also purchased several new computers, video equipment, and a dishwasher for the elementary lunchroom during fiscal year 2004. For additional information on capital assets, see note 8 to the financial statements.

Debt

At June 30, 2004, the School District had \$7,062,368 in bonds outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is AA-.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2004	2003
2002 School Facilities		
Construction and Improvement Bonds:		
Serial Bonds - 1.75%-4.75%	\$4,315,000	\$4,315,000
Term Bonds - 4.75%	2,210,000	2,210,000
Original Issue of Capital Appreciation		
Bonds - 21.947%-21.861%	75,000	75,000
Accretion on Capital Appreciation Bonds	36,851	15,865
Premium on Capital Appreciation Bonds	522,536	545,255
Serial and Term Bond Discount	(97,019)	(101,237)
Total General Obligation Bonds	<u>\$7,062,368</u>	<u>\$7,059,883</u>

See notes 14 to the financial statements for more information on debt.

ECONOMIC FACTORS

As the preceding information shows, the School District depends upon its taxpayers. The future outlook for Wolf Creek Local Schools highly depends on the activity of its two large plants in the school district – the electric power plant (PSEG) and the alloy metals plant (Globe Metallurgical). Waterford Energy LLC (known as PSEG) has recently constructed a new gas powered electric generating plant within the District's boundaries. PSEG invested more than originally projected, which was \$25 million in real estate and \$228 million in personal property. A \$140 million additional investment was later made. The real estate and the first \$288 million had been granted a 60% tax abatement. The opening date of the plant was in May, 2003. The bulk of the first tax collection will be in 2005. However, since the passage of House Bill 95 will accelerate the phase out of personal property taxes, the District may not receive tax revenues from PSEG as originally anticipated.

Wolf Creek Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Globe Metallurgical, which declared bankruptcy in 2003, was purchased by an undisclosed investment group from New York and is operating again. The School District will experience a tax revenue increase from this plant also in fiscal year 2005 since no amounts were received from this bankrupted plant in fiscal year 2004.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karen S. Rohrer, Treasurer at Wolf Creek Local School District, P.O. Box 67, Waterford, Ohio 45786.

Wolf Creek Local School District, Ohio

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,670,896
Cash and Cash Equivalents in Segregated Accounts	353
Investments	989,293
Accounts Receivable	164
Intergovernmental Receivable	67,730
Materials and Supplies Inventory	3,747
Prepaid Items	15,124
Property Taxes Receivable	3,271,189
Deferred Charges	223,836
Nondepreciable Capital Assets	19,171
Depreciable Capital Assets, Net	<u>7,451,083</u>
<i>Total Assets</i>	<u>13,712,586</u>
Liabilities	
Accounts Payable	31,323
Contracts Payable	36,554
Accrued Wages and Benefits Payable	340,091
Accrued Interest Payable	23,259
Vacation Benefits Payable	13,527
Retainage Payable	272,978
Deferred Revenue	3,216,551
Intergovernmental Payable	149,065
Long-Term Liabilities:	
Due Within One Year	124,603
Due In More Than One Year	<u>7,216,058</u>
<i>Total Liabilities</i>	<u>11,424,009</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,658,112
Restricted for:	
Capital Projects	931,281
Bus Purchase	52,896
Unclaimed Monies	400
Other Purposes	173,419
Unrestricted (Deficit)	<u>(527,531)</u>
<i>Total Net Assets</i>	<u><u>\$2,288,577</u></u>

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	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	\$2,567,601	\$208,906	\$112,321	\$0	(\$2,246,374)
Special	381,039	0	335,576	0	(45,463)
Vocational	129,799	0	16,531	0	(113,268)
Support Services:					
Pupil	222,677	0	24,910	0	(197,767)
Instructional Staff	347,020	0	45,511	0	(301,509)
Board of Education	31,987	0	0	0	(31,987)
Administration	414,477	0	0	0	(414,477)
Fiscal	266,058	0	0	0	(266,058)
Operation and Maintenance of Plant	404,845	0	0	0	(404,845)
Pupil Transportation	325,758	0	11,971	7,025	(306,762)
Central	50,937	0	274	0	(50,663)
Operation of Non-Instructional Services:					
Other	6,140	0	6,317	0	177
Food Service Operations	187,040	87,759	100,792	0	1,511
Extracurricular Activities	210,677	66,813	0	0	(143,864)
Interest and Fiscal Charges	292,085	0	0	0	(292,085)
Totals	\$5,838,140	\$363,478	\$654,203	\$7,025	(4,813,434)
General Revenues					
Property Taxes Levied for:					
General Purposes					2,022,712
Debt Service					326,515
Payments in Lieu of Taxes					50,000
Grants and Entitlements not Restricted to Specific Programs					2,134,770
Investment Earnings					33,896
Miscellaneous					13,669
Total General Revenues					4,581,562
Change in Net Assets					(231,872)
Net Assets Beginning of Year - Restated (See Note 3)					2,520,449
Net Assets End of Year					\$2,288,577

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2004

	General	Bond Retirement	Building	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$634,416	\$72,372	\$1,106	\$910,106	\$1,618,000
Investments	0	0	989,293	0	989,293
Cash and Cash Equivalents in Segregated Accounts	0	0	0	353	353
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	52,896	0	0	0	52,896
Receivables:					
Property Taxes	2,843,175	428,014	0	0	3,271,189
Accounts	46	0	0	118	164
Intergovernmental	1,559	197	0	65,974	67,730
Prepaid Items	15,124	0	0	0	15,124
Materials and Supplies Inventory	2,080	0	0	1,667	3,747
<i>Total Assets</i>	<u>\$3,549,296</u>	<u>\$500,583</u>	<u>\$990,399</u>	<u>\$978,218</u>	<u>\$6,018,496</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$19,092	\$0	\$0	\$12,231	\$31,323
Contracts Payable	0	0	36,554	0	36,554
Accrued Wages and Benefits Payable	318,544	0	0	21,547	340,091
Retainage Payable	0	0	272,978	0	272,978
Intergovernmental Payable	100,217	0	0	5,641	105,858
Deferred Revenue	2,810,610	421,330	0	0	3,231,940
<i>Total Liabilities</i>	<u>3,248,463</u>	<u>421,330</u>	<u>309,532</u>	<u>39,419</u>	<u>4,018,744</u>
Fund Balances					
Reserved for Encumbrances	41,149	0	38,871	78,030	158,050
Reserved for Unclaimed Monies	400	0	0	0	400
Reserved for Property Taxes	32,565	6,684	0	0	39,249
Reserved for Bus Purchase	52,896	0	0	0	52,896
Unreserved, Designated	13,884	0	0	0	13,884
Unreserved, Undesignated, Reported in:					
General Fund	159,939	0	0	0	159,939
Special Revenue Funds	0	0	0	149,962	149,962
Debt Service Fund	0	72,569	0	0	72,569
Capital Projects Funds	0	0	641,996	710,807	1,352,803
<i>Total Fund Balances</i>	<u>300,833</u>	<u>79,253</u>	<u>680,867</u>	<u>938,799</u>	<u>1,999,752</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,549,296</u>	<u>\$500,583</u>	<u>\$990,399</u>	<u>\$978,218</u>	<u>\$6,018,496</u>

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances	\$1,999,752
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,470,254
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	15,389
Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(23,259)
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year and therefore are not reported in the funds.	(13,527)
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.	(43,207)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	223,836
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
School Construction Bonds	(7,062,368)
Sick Leave Benefits Payable	(278,293)
	(7,340,661)
Net Assets of Governmental Activities	\$2,288,577

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Building	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$2,014,947	\$324,001	\$0	\$0	\$2,338,948
Intergovernmental	2,295,822	23,937	0	449,953	2,769,712
Investments Earnings	10,970	1,462	13,734	8,871	35,037
Charges for Services	0	0	0	87,759	87,759
Payments in Lieu of Taxes	75,000	0	0	0	75,000
Tuition and Fees	208,888	0	0	0	208,888
Extracurricular Activities	0	0	0	66,813	66,813
Miscellaneous	454	0	0	21,733	22,187
<i>Total Revenues</i>	<u>4,606,081</u>	<u>349,400</u>	<u>13,734</u>	<u>635,129</u>	<u>5,604,344</u>
Expenditures					
Current:					
Instruction:					
Regular	2,423,846	0	0	100,746	2,524,592
Special	218,983	0	0	151,269	370,252
Vocational	121,917	0	0	0	121,917
Support Services:					
Pupil	197,006	0	0	19,557	216,563
Instructional Staff	281,168	0	0	47,888	329,056
Board of Education	31,987	0	0	0	31,987
Administration	394,483	0	0	0	394,483
Fiscal	250,268	7,862	3,719	0	261,849
Operation and Maintenance of Plant	389,926	0	0	0	389,926
Pupil Transportation	301,036	0	0	0	301,036
Central	50,623	0	0	314	50,937
Operation of Non-Instructional Services	0	0	0	188,203	188,203
Extracurricular Activities	124,261	0	0	83,420	207,681
Capital Outlay	2,980	0	1,969,180	28,454	2,000,614
Debt Service:					
Interest and Fiscal Charges	0	279,937	0	0	279,937
<i>Total Expenditures</i>	<u>4,788,484</u>	<u>287,799</u>	<u>1,972,899</u>	<u>619,851</u>	<u>7,669,033</u>
<i>Net Change in Fund Balance</i>	(182,403)	61,601	(1,959,165)	15,278	(2,064,689)
<i>Fund Balances Beginning of Year</i>	<u>483,236</u>	<u>17,652</u>	<u>2,640,032</u>	<u>923,521</u>	<u>4,064,441</u>
<i>Fund Balances End of Year</i>	<u>\$300,833</u>	<u>\$79,253</u>	<u>\$680,867</u>	<u>\$938,799</u>	<u>\$1,999,752</u>

See accompanying notes to the financial statements

Wolf Creek Local 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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$2,064,689)

*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 estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Asset Additions	2,045,767	
Depreciation Expense	<u>(210,970)</u>	1,834,797

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

Loss on Disposal of Capital Assets		(118)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants	(8,355)	
Delinquent Taxes	<u>10,279</u>	1,924

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Amortization of Premium	22,719	
Annual Accretion	(20,986)	
Accrued Interest Payable	69	
Amortization of Discount	<u>(4,218)</u>	(2,416)

Issuance costs are reported as an expenditure when paid in the governmental funds, but is deferred and amortized on the statement of activities. This is the unamortized issuance costs on the bonds. (9,732)

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	(9,332)	
Vacation Benefits Payable	(2,488)	
Sick Leave Benefits Payable	<u>20,182</u>	<u>8,362</u>

Change in Net Assets of Governmental Activities (\$231,872)

See accompanying notes to the financial statements

Wolf Creek Local 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, 2004*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$1,854,925	\$1,854,925	\$2,029,460	\$174,535
Intergovernmental	2,161,124	2,404,995	2,295,379	(109,616)
Investment Earnings	19,000	10,564	11,590	1,026
Payments in Lieu of Taxes	0	75,000	75,000	0
Tuition and Fees	130,600	206,112	208,862	2,750
Miscellaneous	250	450	451	1
<i>Total Revenues</i>	<u>4,165,899</u>	<u>4,552,046</u>	<u>4,620,742</u>	<u>68,696</u>
Expenditures				
Current:				
Instruction:				
Regular	2,502,821	2,490,782	2,452,046	38,736
Special	301,819	241,819	226,304	15,515
Vocational	126,887	124,887	121,829	3,058
Adult	469	0	0	0
Support Services:				
Pupils	208,664	204,004	195,501	8,503
Instructional Staff	262,910	265,885	277,869	(11,984)
Board of Education	45,508	35,333	31,542	3,791
Administration	397,793	394,693	409,852	(15,159)
Fiscal	279,894	276,855	250,003	26,852
Operation and Maintenance of Plant	405,440	396,402	386,516	9,886
Pupil Transportation	403,934	379,301	369,027	10,274
Central	89,872	93,596	69,071	24,525
Extracurricular Activities	108,944	127,969	125,056	2,913
Capital Outlay	2,980	2,980	2,980	0
<i>Total Expenditures</i>	<u>5,137,935</u>	<u>5,034,506</u>	<u>4,917,596</u>	<u>116,910</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(972,036)</u>	<u>(482,460)</u>	<u>(296,854)</u>	<u>185,606</u>
Other Financing Sources (Uses)				
Advances In	400,000	3,026	3,026	0
Advances Out	(1,500)	(3,026)	(3,026)	0
<i>Total Other Financing Sources (Uses)</i>	<u>398,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(573,536)</u>	<u>(482,460)</u>	<u>(296,854)</u>	<u>185,606</u>
<i>Fund Balance Beginning of Year</i>	792,490	792,490	792,490	0
Prior Year Encumbrances Appropriated	84,574	84,574	84,574	0
<i>Fund Balance End of Year</i>	<u>\$303,528</u>	<u>\$394,604</u>	<u>\$580,210</u>	<u>\$185,606</u>

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$17,043</u>
Liabilities	
Due to Students	<u>\$17,043</u>

See accompanying notes to the financial statements

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Wolf Creek Local 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. This Board of Education controls the School District's two instructional/support facilities staffed by 34 classified employees, 49 certified teaching personnel, and 4 administrators, who provide services to 675 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Wolf Creek Local School District, this includes general operations, food service, 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 four jointly governed organizations and two insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Washington County Career Center, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, the Ohio School Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

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 after 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.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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. 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 the School District can be classified using two categories, governmental and fiduciary.

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

Bond Retirement Fund The Bond Retirement Fund accounts for the accumulation of resources for, and the payment of, principal and interest on long-term debt and related costs.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Building Capital Projects Fund The Building Capital Projects Fund accounts for 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 equal liabilities) and do not involve 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 the 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. expenditures) in total net assets.

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

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.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition, grants, 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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments consisted of Governmental Securities which are reported at fair value based on quoted market prices.

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 2004 amounted to \$10,970, which includes \$1,716 assigned from other School District funds.

The School District has a segregated bank account for student activities. This depository account is presented as "cash and cash equivalents in segregated accounts" since it is not deposited into the School District treasury.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

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

H. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported 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 one thousand 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 reported capital assets, except land, land improvements, and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	8 - 75 years
Furniture and Equipment	5 - 50 years
Vehicles	15 - 20 years

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets represent unexpended grants restricted for the purchase of buses. See Note 17 for additional information regarding set-asides.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

J. 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. The liability for vacation benefits is recorded as "vacation benefits payable", rather than long-term liabilities, as the balances are to be used by employees in the fiscal year following the fiscal year earned.

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 classified and certified employees after ten years of current service with the School District.

K. Unamortized Issuance Costs and Bond Premiums and Discounts

On government-wide financial statements, issuance costs and bond discounts and premiums are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are recorded as deferred charges. Bond discounts are presented as a reduction of the face amount of bonds payable.

Bond premiums on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

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, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Activity

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

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Designated 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 textbooks in excess of the amount required by State statute.

P. Net Assets

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

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

Q. 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.

R. Estimates

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

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

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level 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 School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement 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 by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. 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.

Note 3 - Changes in Accounting Principle and Restatement of Prior Year Balances

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This Statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2003.

During 2004, the School District adjusted the salvage values of its capital assets and discovered that the vehicles had been overstated. Also overstated was the capital appreciation bonds' accretion while the premiums were understated. These adjustments had the following effects on net assets as it was previously reported at June 30, 2003:

	Governmental Activities
Net Assets as Previously Reported	\$2,986,663
Overstatement of Capital Assets - Vehicles	(167,508)
Restatement of Accumulated Depreciation	(332,637)
Overstatement of Accretion	579,186
Understatement of Bond Premiums	(545,255)
Net Assets - June 30, 2003	<u>\$2,520,449</u>

Note 4 - 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:

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The following tables summarize 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	(\$182,403)
Revenue Accruals	14,041
Expenditure Accruals	(28,538)
Unreported Interest:	
Beginning of Fiscal Year	756
End of Fiscal Year	(136)
Prepaid Items:	
Beginning of Fiscal Year	21,516
End of Fiscal Year	(15,124)
Advances In	3,026
Advances Out	(3,026)
Encumbrances	<u>(106,966)</u>
Budget Basis	<u><u>(\$296,854)</u></u>

Note 5 - 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.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Protection of 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 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 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 and eighty days 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 to maturity.

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

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Cash on Hand At fiscal year end, the School District had \$25 in undeposited cash on hand which is included on the balance sheet of the School District as part of “equity in pooled cash and cash equivalents.”

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.”

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$1,688,267 and the bank balance was \$1,735,765. Of the bank balance:

1. \$200,463 was covered by federal depository insurance; and
2. \$1,535,302 was collateralized with securities held by the pledging financial institution’s trust department in the School District’s name.

Investments The School District's investments are required to be categorized below 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 which 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.

Investment	Category 1	Fair Value
Government Securities:		
Federal Home Loan Bank Notes	\$149,203	\$149,203
Federal Home Loan Mortgage Corporation Discount Notes	648,343	648,343
Federal National Mortgage Association Discount Notes	191,747	191,747
Total	\$989,293	\$989,293

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 and the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,688,292	\$989,293
Cash on Hand	(25)	0
GASB Statement 3	\$1,688,267	\$989,293

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. 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 Washington 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2004, was \$39,249 and is recognized as revenue: \$32,565 in the General Fund and \$6,684 in the Bond Retirement Fund. The amount available as an advance at June 30, 2003, was \$55,097 and was recognized as revenue: \$47,078 in the General Fund and \$8,019 in the Bond Retirement 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 is deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$42,405,270	54%	\$44,392,420	54%
Public Utility Personal	26,949,810	35%	28,165,140	35%
Tangible Personal Property	8,420,080	11%	8,726,440	11%
	<u>\$77,775,160</u>	<u>100%</u>	<u>\$81,284,000</u>	<u>100%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$37.40		\$37.40	

Note 7 - Receivables

Receivables at June 30, 2004, consisted of property taxes, accounts, 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 year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Title II-B	\$34,273
Title I	19,257
Title II-A	4,375
National School Lunch	8,069
Rollback and Homestead	1,252
Other	504
Total	<u>\$67,730</u>

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance</u> <u>6/30/2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2004</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land and Land Improvements	\$19,171	\$0	\$0	\$19,171
Construction in Progress	4,608,606	1,972,690	(6,581,296)	0
Total Capital Assets not being Depreciated	<u>4,627,777</u>	<u>1,972,690</u>	<u>(6,581,296)</u>	<u>19,171</u>
Depreciable Capital Assets:				
Buildings and Improvements	2,730,910	6,578,296	0	9,309,206
Furniture and Equipment	816,790	76,077	(3,235)	889,632
Vehicles	583,358	0	0	583,358
Total Capital Assets being Depreciated	<u>4,131,058</u>	<u>6,654,373</u>	<u>(3,235)</u>	<u>10,782,196</u>
Less Accumulated Depreciation				
Buildings and Improvements	(2,166,893)	(131,233)	0	(2,298,126)
Furniture and Equipment	(581,973)	(58,626)	3,117	(637,482)
Vehicles	(374,394)	(21,111)	0	(395,505)
Total Accumulated Depreciation	<u>(3,123,260)</u>	<u>(210,970) *</u>	<u>3,117</u>	<u>(3,331,113)</u>
Total Capital Assets being Depreciated, Net	<u>1,007,798</u>	<u>6,443,403</u>	<u>(118)</u>	<u>7,451,083</u>
Capital Assets, Net	<u>\$5,635,575</u>	<u>\$8,416,093</u>	<u>(\$6,581,414)</u>	<u>\$7,470,254</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$106,837
Special	14,458
Vocational	8,525
Support Services:	
Pupil	5,170
Instructional Staff	15,126
Administration	9,895
Fiscal	5,742
Operation and Maintenance of Plant	10,108
Pupil Transportation	21,861
Food Service Operations	10,224
Extracurricular Activities	3,024
Total Depreciation Expense	<u>\$210,970</u>

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 16). The types and amounts of coverage provided by the Ohio School Plan are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$19,367,300
Boiler and Machinery (\$1,000 deductible)	6,749,400
Builders' Risk (\$1,000 deductible)	5,030,700
Inland Marine:	
Fine Arts (\$100 deductible)	500
Signs (No deductible)	5,000
Band Uniforms (\$250 deductible)	16,000
Computers (\$100 deductible)	264,422
Crime – Public Employee Dishonesty (\$250 deductible)	10,000
Automobile Liability (\$100 deductible):	
Bodily Injury and Property Damage – combined single limit	1,000,000
Medical Payments – each person	5,000
Uninsured Motorists	1,000,000
General Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Products – Complete Operations Aggregate Limit	1,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	1,000,000
Per Disease Each Employee	1,000,000
Per Disease Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2004.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Worker's Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See 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.

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty 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 may be accumulated up to a maximum of 215 days for all personnel. Upon retirement, employees receive payment for one-fourth of their accumulated sick days to a maximum as follows: 30 days for having ten years of service; 35 days for 15 to 19 years of service with this School District; 40 days for 20 to 24 years of service with this School District; and 45 days for more than 24 years of service with this School District. Also, teachers having 20 years of service or more with this School District will have an additional severance amount calculated as follows: 45 days subtracted from their total accumulated sick leave divided by 2; then multiplied by a fixed figure of \$65 not to exceed \$5,525.

B. Insurance

The School District provides medical, health, and prescription card coverage through Medical Mutual of Ohio. The School District pays ninety percent of the total monthly premiums of \$859.91 for family coverage and \$339.30 for single coverage.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company, in the amount of \$25,000.

Dental coverage is provided through G.E. Life Assurance. The School District also pays ninety percent of the total monthly premiums of \$55.37 for family coverage and \$18.42 for single coverage.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 11 – Contractual Commitment

As of June 30, 2004, the School District had contractual purchase commitments for a new phone system and fencing on school property. The contracts are accounted for in the Building Capital Projects Fund.

<u>Portion of Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
Phone System	\$20,886	\$0	\$20,886
Fencing	2,848	0	2,848
	<u>\$23,734</u>	<u>\$0</u>	<u>\$23,734</u>

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, 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 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, 2003, and 2002, were \$314,339, \$267,029, and \$209,431, respectively; 82.32 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$16 made by the School District and \$3,771 made by the plan members.

B. 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002, were \$67,179, \$54,639, and \$39,470, respectively; 56.33 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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 on a pay-as-you-go basis.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$24,180 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 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 of the premium.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$50,266.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 14 - Long Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/03	Additions	Reductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
2002 School Facilities					
Construction and Improvement Bonds:					
Serial Bonds - 1.75%-4.75%	\$4,315,000	\$0	\$0	\$4,315,000	\$95,000
Term Bonds - 4.75%	2,210,000	0	0	2,210,000	0
Original Issue of Capital Appreciation Bonds - 21.947%-21.861%	75,000	0	0	75,000	0
Accretion on Capital Appreciation Bonds	15,865	20,986	0	36,851	0
Premium on Capital Appreciation Bonds	545,255	0	22,719	522,536	0
Serial and Term Bond Discount	(101,237)	0	(4,218)	(97,019)	0
Total General Obligation Bonds	7,059,883	20,986	18,501	7,062,368	95,000
Sick Leave Benefits	298,475	112,533	132,715	278,293	29,603
Total Governmental Activities Long-Term Liabilities	\$7,358,358	\$133,519	\$151,216	\$7,340,661	\$124,603

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and Food Service, Title VI-B, and Title I Special Revenue Funds.

On August 2, 2002, the School District issued \$6,600,000 in voted general obligation bonds for constructing, improving, and making additions to school buildings. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$4,315,000, \$2,210,000, and \$75,000, respectively. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 5.50 mill voted property tax levy. The serial and term general obligation bonds were sold at a discount of \$105,455 and are amortized over the term of the bonds. Issuance costs associated with the bond issue were \$243,300 and are amortized over the term of the bonds.

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2023	\$550,000
2024	575,000
2025	610,000

The remaining principal amount of the term bonds (\$475,000) will mature at stated maturity on December 1, 2026.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The serial bonds maturing on or after December 1, 2013, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2012, at the redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

When partial redemption is authorized, the serial bonds or portions thereof will be selected by lot within a maturity in such manner as the Bond Registrar may determine, provided, however, that the portion of any such Bond so selected will be in the amount of \$5,000 or any integral multiple thereof.

The capital appreciation bonds were sold at a premium of \$567,974. The capital appreciation bonds will mature in fiscal years 2014, 2015, and 2016. The maturity amount of the bonds is \$1,170,000. For the fiscal year 2004, \$20,986 was accreted for a total bond value of \$111,851.

The overall debt margin of the School District as of June 30, 2004, was \$715,560, with an unvoted debt margin of \$81,284.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2004, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	95,000	279,106	\$0	\$0	\$0	\$0
2006	135,000	276,790	0	0	0	0
2007	140,000	273,555	0	0	0	0
2008	145,000	269,775	0	0	0	0
2009	150,000	265,383	0	0	0	0
2010-2014	910,000	1,418,283	0	0	0	0
2015-2019	820,000	932,735	0	0	75,000	1,095,000
2020-2024	1,920,000	552,924	550,000	144,401	0	0
2025-2027	0	0	1,660,000	113,525	0	0
	<u>\$4,315,000</u>	<u>\$4,268,551</u>	<u>\$2,210,000</u>	<u>\$257,926</u>	<u>\$75,000</u>	<u>\$1,095,000</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 15 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2004, the School District paid \$21,282 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. Washington County Career Center

The Washington County Career Center, a joint vocational school, is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the six participating school districts' elected boards and one representative from the Washington County Educational Service Center's board. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Washington County Career Center, Mary Bee, Treasurer, at Route 2, Marietta, Ohio 45750.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2004.

D. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)

SEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2003, the School District paid \$2,456 to SEOSERRC. 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.

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 16 - Insurance Purchasing Pools

A. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 17 - Set asides

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

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

Wolf Creek Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2003	\$18,673	(\$135,079)	(\$65,021)
Current Year Set-aside Requirement	0	93,120	93,120
Current Year Offsets	0	(321,486)	0
Qualifying Disbursements	(18,673)	0	(52,632)
Total	<u>\$0</u>	<u>(\$363,445)</u>	<u>(\$24,533)</u>
Set-aside Balance Carry Forward to Future Fiscal Years	<u>\$0</u>	<u>(\$363,445)</u>	<u>(\$24,533)</u>

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

Note 18 – 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 its future State funding and on its financial operations.

Note 19 - Contingencies

A. Grants

The School District received 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. 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, 2004.

B. Litigation

The School District is currently not a party to any legal proceedings.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board of Education
Wolf Creek Local School District
Waterford, Ohio**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wolf Creek Local School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. 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 Wolf Creek Local School District's general-purpose 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wolf Creek Local 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the District in a separate letter dated October 15, 2004.

This report is intended for the information of the Board of Education, Management, and the Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
October 15, 2004

**WOLF CREEK LOCAL SCHOOL DISTRICT
WASHINGTON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

1. Summary of Auditor's Results

(d)(1)(I)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	NO

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

NONE



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**WOLF CREEK LOCAL SCHOOL DISTRICT
WASHINGTON 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
DECEMBER 14, 2004**