



**Auditor of State
Betty Montgomery**

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
FAYETTE COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Washington Court House City School District
Fayette County
306 Highland Avenue
Washington Court House, Ohio 43160

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington Court House City School District, Fayette County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Washington Court House City School District, Fayette County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

June 20, 2006

WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of Washington Court House City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$840,754, which represents an 11% decrease from 2004.
- General revenues accounted for \$13,789,626 in revenue or 81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,140,995 or 19% of total revenues of \$16,930,621.
- Total assets of governmental activities increased by \$1,083,360 as taxes receivable increased by \$702,668 while cash and other receivables increased by \$640,716.
- The District had \$17,771,375 in expenses related to governmental activities; \$3,140,995 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$13,789,626 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Government-wide Financial Statements 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the financial activity and overall financial position of the District is presented as Governmental Activities. This includes the District's programs and services, including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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

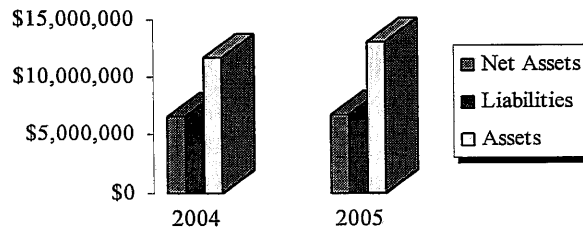
The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

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

Table 1
Net Assets

	Governmental Activities	
	2004 Restated	2005
Assets		
Current Assets	\$8,588,160	\$9,931,493
Capital Assets	4,213,833	3,953,860
Total Assets	12,801,993	13,885,353
Liabilities		
Long-Term Liabilities	650,454	592,630
Other Liabilities	4,579,610	6,561,548
Total Liabilities	5,230,064	7,154,178
Net Assets		
Invested in Capital		
Assets Net of Debt	3,923,833	3,743,860
Restricted	1,670,644	2,148,658
Unrestricted	1,977,452	838,657
Total Net Assets	\$7,571,929	\$6,731,175



Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,731,175.

At year-end, capital assets represented 25% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2005, was \$3,743,860. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,148,658, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total assets increased due to increase in taxes receivable. This is due to a new levy for the building of a new school. Total liabilities increased due to increases in deferred revenue due to the new school levy.

Table 2 shows the change in net assets for fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2004 Restated	2005
Revenues		
Program Revenues:		
Charges for Services	\$738,358	\$746,200
Operating Grants	1,891,587	2,048,863
Capital Grants	338,291	345,932
General Revenue:		
Property Taxes	6,505,882	3,820,546
Grants and Entitlements	9,509,392	9,710,115
Other	326,109	258,965
Total Revenues	<u>19,309,619</u>	<u>16,930,621</u>
Program Expenses:		
Instruction	9,127,961	10,614,390
Support Services:		
Pupil and Instructional Staff	1,450,360	1,638,712
General and School Administrative, Fiscal and Business	1,693,315	1,848,852
Operations and Maintenance	1,404,899	1,557,453
Pupil Transportation	510,151	560,517
Central	110,996	101,523
Operation of Non-Instructional Services	697,934	794,097
Extracurricular Activities	561,715	642,596
Interest and Fiscal Charges	13,948	13,235
Total Expenses	<u>15,571,279</u>	<u>17,771,375</u>
Change in Net Assets	3,738,340	(840,754)
Beginning Net Assets	<u>3,833,589</u>	<u>7,571,929</u>
Ending Net Assets	<u>\$7,571,929</u>	<u>\$6,731,175</u>

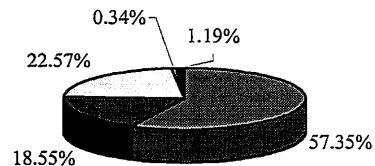
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general and capital projects purposes and grants and entitlements comprised 80% of the District's revenues for governmental activities. Property tax revenue decreased due to decrease in the amount of available for advance from the County Auditor. Grants and entitlements revenue increased due to increase in special education grant funding.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not receive additional property tax revenue from an increase in appraisal value and must regularly return to the voters to maintain a constant level of service. Property taxes made up 23% of revenue for governmental activities for the District in fiscal year 2005.

Revenue Sources	2005	Percent of Total
General Grants	\$9,710,115	57.35%
Program Revenues	3,140,995	18.55%
General Tax Revenues	3,820,546	22.57%
Investment Earnings	56,784	0.34%
Other Revenues	202,181	1.19%
	<u>\$16,930,621</u>	<u>100.00%</u>



Instruction comprises 59% of governmental program expenses. Instruction increased due to increase in tuition payments to other districts. Support services expenses were 32% of governmental program expenses. Pupil support services increased due to increases in spending for gifted programs.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
Instruction	(\$9,695,697)	(\$10,614,390)	(\$8,636,554)	(\$9,407,470)
Support Services:				
Pupil and Instructional Staff	(1,540,568)	(1,638,712)	(1,153,713)	(1,250,979)
General and School Administrative, Fiscal and Business	(1,798,635)	(1,848,852)	(1,666,984)	(1,609,878)
Operations and Maintenance	(1,492,280)	(1,557,453)	(1,153,366)	(1,212,090)
Pupil Transportation	(541,881)	(560,517)	(530,662)	(550,153)
Central	(117,900)	(101,523)	(77,383)	(77,783)
Operation of Non-Instructional Services	(741,344)	(794,097)	69,106	(66,177)
Extracurricular Activities	(596,652)	(642,596)	(407,165)	(442,615)
Interest and Fiscal Charges	(13,948)	(13,235)	(13,948)	(13,235)
Total Expenses	<u>(\$16,538,905)</u>	<u>(\$17,771,375)</u>	<u>(\$13,570,669)</u>	<u>(\$14,630,380)</u>

The District's Funds

The District has three major governmental funds: the General Fund, the Permanent Improvement Fund and the Bond Retirement Fund. Assets of the general fund comprised \$6,466,870 (64%), the permanent improvement fund comprised \$1,655,385 (16%) and the bond retirement fund comprised \$926,295 (9%) of the total \$10,090,167 governmental funds assets.

General Fund: Fund balance at June 30, 2005 was \$1,326,765 a decrease in fund balance of \$728,293 from 2004. The fund balance remained fairly consistent from 2004 to 2005.

Permanent Improvement Fund: Fund balance at June 30, 2005 was \$1,361,351 including \$1,184,271 of unreserved balance. The fund balance increased from 2004 mainly due to a decrease in capital outlay.

Bond Retirement Fund: Fund balance at June 30, 2005 was (\$24,805) an increase in fund balance of \$22,199 from 2004. The fund balance increased mainly due to increase in Taxes Receivable.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$14,795,481, compared to final budget estimates of \$15,267,330. There was no difference between original budget basis and final budget.

The District's June 30, 2005 unobligated General Fund cash balance was \$1,382,696.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,953,860 invested in land, buildings, and equipment. Table 4 shows fiscal 2005 balances compared to fiscal 2004:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	<u>2004 Restated</u>	<u>2005</u>
Land	\$383,734	\$383,734
Buildings and Improvements	2,286,860	2,255,797
Equipment	<u>1,543,239</u>	<u>1,314,329</u>
Total Net Capital Assets	<u>\$4,213,833</u>	<u>\$3,953,860</u>

The decrease in capital assets is due to \$367,310 in acquisitions, offset by the recognition of \$462,073 in depreciation expense and \$165,210 in accumulated depreciation.

See the notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2005, the District had \$185,000 in bonds outstanding, \$35,000 due within one year. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>
General Obligation Bonds:		
School Improvement	<u>\$215,000</u>	<u>\$185,000</u>

See the notes to the basic financial statements for further details on the District's long-term obligations.

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither “adequate” nor “equitable.” Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not “equitable” nor “adequate”. The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court’s concerns.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

With no increase in state funding projected, the District plans to increase revenues by submitting an operating levy to the community in the near future. At this time, the Board has not set the date and amount for the levy. Even though the District is projecting a slight decrease in enrollment, the need for increased revenues is projected for fiscal year 2006. This increased funding will be needed to provide all students a quality education. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

The District has committed itself to financial excellence for many years. All of the District’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District’s finances, the District’s management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ben Teeters, Treasurer at Washington C.H. City School District, 306 Highland Ave., Washington Court House, Ohio 43160. Or E-mail at wch_tres@mveca.org.

Washington Court House City School District
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash	\$2,837,378
Restricted Cash	275,295
Receivables:	
Taxes	6,269,873
Accounts	3,582
Intergovernmental	524,212
Inventory	21,153
Nondepreciable Capital Assets	383,734
Depreciable Capital Assets, Net	<u>3,570,126</u>
 Total Assets	 <u>13,885,353</u>
Liabilities:	
Accounts Payable	340,608
Accrued Wages and Benefits	1,693,958
Accrued Interest Payable	3,640
Unearned Revenue	4,498,342
General Obligation Notes Payable	25,000
Long-Term Liabilities:	
Due Within One Year	120,125
Due In More Than One Year	<u>472,505</u>
 Total Liabilities	 <u>7,154,178</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,743,860
Restricted for:	
Special Revenue	551,812
Capital Projects	1,321,551
Set-Aside	275,295
Unrestricted	<u>838,657</u>
 Total Net Assets	 <u>\$6,731,175</u>

See accompanying notes to the basic financial statements.

Washington Court House City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$7,894,784	\$18,281	\$491,345	\$0	(\$7,385,158)
Special	2,123,577	0	673,226	0	(1,450,351)
Vocational	101,482	0	0	0	(101,482)
Other	494,547	1,174	22,776	0	(470,597)
Support Services:					
Pupil	808,058	58,253	4,206	0	(745,599)
Instructional Staff	830,654	946	346,032	0	(483,676)
General Administration	21,706	0	0	0	(21,706)
School Administration	1,406,650	63,929	152,001	0	(1,190,720)
Fiscal	420,496	0	1,377	0	(419,119)
Operations and Maintenance	1,557,453	8,379	1,487	335,568	(1,212,019)
Pupil Transportation	560,517	0	0	10,364	(550,153)
Central	101,523	0	23,697	0	(77,826)
Operation of Non-Instructional Serv	794,097	395,257	332,716	0	(66,124)
Extracurricular Activities	642,596	199,981	0	0	(442,615)
Interest and Fiscal Charges	13,235	0	0	0	(13,235)
Total Governmental Activities	17,771,375	746,200	2,048,863	345,932	(14,630,380)
General Revenues:					
Property Taxes Levied for:					
General Purposes					3,518,278
Capital Projects Purposes					302,268
Grants and Entitlements not Restricted to Specific Programs					9,710,115
Unrestricted Contributions					100,241
Investment Earnings					56,784
Other Revenues					101,940
Total General Revenues					13,789,626
Change in Net Assets					(840,754)
Net Assets Beginning of Year, Restated					7,571,929
Net Assets End of Year					\$6,731,175

See accompanying notes to the basic financial statements.

Washington Court House City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash	\$1,191,826	\$195	\$1,224,196	\$421,161	\$2,837,378
Restricted Cash	275,295	0	0	0	275,295
Receivables:					
Taxes	4,837,584	926,100	431,189	75,000	6,269,873
Accounts	3,491	0	0	91	3,582
Intergovernmental	0	0	0	524,212	524,212
Interfund	158,674	0	0	0	158,674
Inventory	0	0	0	21,153	21,153
Total Assets	6,466,870	926,295	1,655,385	1,041,617	10,090,167
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	222,190	0	279	118,139	340,608
Accrued Wages and Benefits	1,488,261	0	0	205,697	1,693,958
Compensated Absences	2,394	0	0	0	2,394
Interfund Payable	0	0	0	158,674	158,674
Deferred Revenue	3,427,260	926,100	293,755	435,387	5,082,502
General Obligation Notes Payable	0	25,000	0	0	25,000
Total Liabilities	5,140,105	951,100	294,034	917,897	7,303,136
Fund Balances:					
Reserved for Encumbrances	19,741	0	39,646	69,454	128,841
Reserved for Inventory	0	0	0	21,153	21,153
Reserved for Property Tax Advances	1,410,324	0	137,434	0	1,547,758
Reserved for Set-Aside	275,295	0	0	0	275,295
Unreserved, Undesignated, Reported in:					
General Fund	(378,595)	0	0	0	(378,595)
Special Revenue Funds	0	0	0	72,913	72,913
Debt Service Funds	0	(24,805)	0	0	(24,805)
Capital Projects Funds	0	0	1,184,271	(39,800)	1,144,471
Total Fund Balances	1,326,765	(24,805)	1,361,351	123,720	2,787,031
Total Liabilities and Fund Balances	\$6,466,870	\$926,295	\$1,655,385	\$1,041,617	\$10,090,167

See accompanying notes to the basic financial statements.

Washington Court House City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balance		\$2,787,031
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,953,860
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	223,773	
Intergovernmental	<u>360,387</u>	
		584,160
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(3,640)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(405,236)</u>	
		(405,236)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(185,000)</u>
Net Assets of Governmental Activities		<u>\$6,731,175</u>
See accompanying notes to the basic financial statements.		

Washington Court House City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$3,675,578	\$0	\$324,999	\$0	\$4,000,577
Tuition and Fees	19,175	0	0	5,086	24,261
Investment Earnings	32,522	22	18,716	5,525	56,785
Intergovernmental	10,272,739	0	43,090	1,512,105	11,827,934
Extracurricular Activities	0	0	0	254,094	254,094
Charges for Services	0	0	0	395,257	395,257
Other Revenues	98,478	0	102,870	76,415	277,763
Total Revenues	14,098,492	22	489,675	2,248,482	16,836,671
Expenditures:					
Current:					
Instruction:					
Regular	7,289,606	0	0	301,795	7,591,401
Special	1,582,199	0	0	516,451	2,098,650
Vocational	98,826	0	0	0	98,826
Other	489,384	0	0	2,611	491,995
Support Services:					
Pupil	591,565	0	4,099	179,248	774,912
Instructional Staff	544,990	0	0	252,698	797,688
General Administration	19,562	0	0	0	19,562
School Administration	1,256,687	0	0	127,399	1,384,086
Fiscal	401,279	0	10,536	3,195	415,010
Operations and Maintenance	1,539,103	0	0	0	1,539,103
Pupil Transportation	508,261	0	0	3,334	511,595
Central	52,262	0	0	34,638	86,900
Operation of Non-Instructional Services	2,275	0	0	784,990	787,265
Extracurricular Activities	377,890	0	0	250,715	628,605
Capital Outlay	8,898	0	151,906	39,800	200,604
Debt Service:					
Principal Retirement	0	30,000	0	0	30,000
Interest and Fiscal Charges	0	13,823	0	0	13,823
Total Expenditures	14,762,787	43,823	166,541	2,496,874	17,470,025
Excess of Revenues Over (Under) Expenditures	(664,295)	(43,801)	323,134	(248,392)	(633,354)
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	2,002	0	0	0	2,002
Transfers In	0	66,000	0	0	66,000
Transfers (Out)	(66,000)	0	0	0	(66,000)
Total Other Financing Sources (Uses)	(63,998)	66,000	0	0	2,002
Net Change in Fund Balance	(728,293)	22,199	323,134	(248,392)	(631,352)
Fund Balance Beginning of Year, Restated	2,055,058	(47,004)	1,038,217	372,112	3,418,383
Fund Balance End of Year	\$1,326,765	(\$24,805)	\$1,361,351	\$123,720	\$2,787,031

See accompanying notes to the basic financial statements.

Washington Court House City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance - Total Governmental Funds (5631,352)

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

Governmental funds report capital asset additions 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 of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	367,310	
Depreciation Expense	<u>(462,073)</u>	(94,763)

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. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (165,210)

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

Delinquent Property Taxes	(180,032)	
Intergovernmental	<u>273,982</u>	93,950

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 30,000

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 588

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.

Compensated Absences	<u>(73,967)</u>	<u>(73,967)</u>
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Change in Net Assets of Governmental Activities (5840,754)

See accompanying notes to the basic financial statements.

Washington Court House City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash	\$371,163	\$22,145
Total Assets	<u>371,163</u>	<u>\$22,145</u>
Liabilities:		
Accounts Payable	0	3,417
Other Liabilities	<u>0</u>	<u>18,728</u>
Total Liabilities	<u>0</u>	<u>\$22,145</u>
Net Assets:		
Held in Trust	<u>371,163</u>	
Total Net Assets	<u>\$371,163</u>	

See accompanying notes to the basic financial statements.

Washington Court House City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
Additions:	
Donations	\$92,891
Investment Earnings	<u>7,366</u>
Total Additions	<u>100,257</u>
Deductions:	
Scholarships	<u>67,991</u>
Total Deductions	<u>67,991</u>
Change in Net Assets	32,266
Net Assets Beginning of Year	<u>338,897</u>
Net Assets End of Year	<u>\$371,163</u>

See accompanying notes to the basic financial statements.

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE DISTRICT

Washington Court House City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Washington Court House City School District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 Members) and is responsible for the provision of public education to residents of the District.

The heritage of the Washington Court House City Schools began in 1813 when Samuel Looftborrow converted half of his double log cabin at the corner of Hinde and Paint Streets into a subscription school supported by the parents of his pupils.

Numerous one-room schools sprung up throughout the community during the 1800's. By 1856, a site on North Street was purchased and a new two story eight-room school was built. In 1872, the building was upgraded and shortly thereafter, the system was approved as what was known as a "first grade" school which allowed it to conduct high school level courses.

In 1876, the Washington High School and Fayette County had its first high school graduates when three students, a boy and two girls, received their diplomas after studying Latin, Greek, French, logic, trigonometry, mental and moral philosophy and natural sciences using college textbooks.

Today, the district owns nine major educational facilities: four elementary buildings (Belle Aire, Cherry Hill, Eastside, and Rose Avenue), one middle school (Washington Middle School), one high school (Washington Senior High), Education Service Center (district office), one kindergarten (Sunnyside), and Gardner Park Sports Complex. The total enrollment varies from year to year but averages 2,350 students per year and the average senior class has 130 students graduating.

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

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

Fund Financial Statements

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

Fiduciary Funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

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

Governmental Funds

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

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

Permanent Improvement Fund – The permanent improvement fund is used to account for all transactions related to improvements to existing District facilities.

Bond Retirement Fund – This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary funds are a private purpose trust, which accounts for scholarship programs for students, and an agency fund which accounts for those student activities which consist of a student body, student president, student treasurer and faculty advisor.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

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

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

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

EQUITY IN POOLED CASH AND INVESTMENTS

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. "Restricted Cash and Investments" represents amounts reserved for capital maintenance set a-side.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue in the General fund during fiscal year 2005 amounted to \$32,522.

INVENTORY

Inventories are presented at cost on a first in, first out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

CAPITAL ASSETS

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars (\$500). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	20-40 years
Equipment	3-15 years

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion for unpaid compensated absences are recognized when due. The related liabilities are recorded in the account "compensated absences payable" in the fund from which employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certificated</u>	<u>Administrators</u>	<u>Classified</u>
How Earned	Not Eligible	20 days per year accumulated at 1.667 per month	10-20 days for each service year depending on length of service
Maximum Accumulation	Not Eligible	60 days	60 days
Vested	Not Applicable	Not Applicable	Not Applicable
Termination Entitlement	Not Applicable	Paid upon termination	Paid upon termination
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	Contract year +15 days (Range from 200-220 days)	Contract year +15 days (Range from 200-220 days)	Contract year +15 days (Range from 200-220 days)
Termination Entitlement	Per Contract	Per Contract	Per Contract

NET ASSETS

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

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

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.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities.

INTERFUND ASSETS/LIABILITIES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, property tax advances and set-asides. The reserve for property tax advances represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

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.

RESTRICTED ASSETS

Restricted assets in the general fund represent equity in pooled cash and investments set aside for capital maintenance. A corresponding fund balance reserve has also been established.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.

- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, \$3,643,521 of the District's bank balance of \$3,743,521 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

3. PROPERTY TAXES

Real property taxes collected in 2005 were levied in April on the assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update ever third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2005, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

In the governmental fund financial statements (modified accrual basis of accounting), accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2005. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$1,410,324 for General Fund and \$137,434 for Permanent Improvement Capital Projects, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2005 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$177,203,180
Public Utility Personal	5,153,340
Tangible Personal Property	<u>28,096,266</u>
Total	<u>\$210,452,786</u>

4. RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. 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.

5. CAPITAL ASSETS

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

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$383,734	\$0	\$0	\$383,734
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	3,154,491	282,942	146,216	3,291,217
Equipment	6,076,023	84,368	106,591	6,053,800
Totals at Historical Cost	<u>9,614,248</u>	<u>367,310</u>	<u>252,807</u>	<u>9,728,751</u>
Less Accumulated Depreciation:				
Buildings and Improvements	867,631	218,455	50,666	1,035,420
Equipment	4,532,784	243,618	36,931	4,739,471
Total Accumulated Depreciation	<u>5,400,415</u>	<u>462,073</u>	<u>87,597</u>	<u>5,774,891</u>
Governmental Activities Capital Assets, Net	<u>\$4,213,833</u>	<u>(\$94,763)</u>	<u>\$165,210</u>	<u>\$3,953,860</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$215,900
Special	40,799
Vocational	2,764
Other Instruction	2,552
Support Services:	
Pupil	18,255
Instructional Staff	33,212
General Administration	2,144
School Administration	10,927
Fiscal	3,285
Operations and Maintenance	38,998
Pupil Transportation	57,097
Central	14,623
Operation of Non-Instructional Services	7,328
Extracurricular Activities	14,189
Total Depreciation Expense	<u>\$462,073</u>

6. NOTES PAYABLE

During the year ended June 30, 2005, the following changes occurred in short-term notes payable.

	<u>Balance</u> <u>Beginning of Year</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>End of Year</u>
Notes Payable	\$75,000	\$75,000	\$125,000	\$25,000

7. LONG-TERM LIABILITIES

	<u>Maturity</u> <u>Dates</u>	<u>Beginning</u> <u>Principal</u> <u>Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Principal</u> <u>Outstanding</u>	<u>Due In</u> <u>One Year</u>
<u>Governmental Activities:</u>						
School Improvement 2000 5.90%	9/01/09	\$215,000	\$ 0	\$30,000	\$185,000	\$35,000
Compensated Absences		<u>435,454</u>	<u>102,596</u>	<u>130,420</u>	<u>407,630</u>	<u>85,125</u>
Total Governmental Activities Long-Term Liabilities		<u>\$650,454</u>	<u>\$102,596</u>	<u>\$160,420</u>	<u>\$592,630</u>	<u>\$120,125</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

<u>General Obligation Bonds</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$35,000	\$9,883	\$44,883
2007	35,000	7,818	42,818
2008	35,000	5,753	40,753
2009	40,000	3,540	43,540
2010	<u>40,000</u>	<u>1,180</u>	<u>41,180</u>
Totals	<u>\$185,000</u>	<u>\$28,174</u>	<u>\$213,174</u>

8. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The 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 10% 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% of annual covered payroll. 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$303,852, \$312,864, and \$304,476 respectively; 50.3% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

STATE TEACHERS RETIREMENT SYSTEM

The School District participates in 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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 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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,133,952, \$1,094,688, and \$1,047,300 respectively; 82.9% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

9. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$80,997 during the 2005 fiscal year. As of June 30, 2005, eligible benefit recipients totaled 115,395. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000.

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

For 2005 fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$74,444 during the 2005 fiscal year. The number of participants currently receiving health care benefits is 58,123. For the fiscal year ended June 30, 2005, net health care costs paid by SERS were \$178,221,113. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million.

10. CONTINGENT LIABILITIES

GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2005.

LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

11. JOINTLY GOVERNED ORGANIZATIONS

The Miami Valley Educational Computer Association (MVECA) is a governmental joint venture consisting of 27 school districts. The joint organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member's school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school district to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education and its own governing board. The governing board is made up of Superintendents from the seventeen school districts plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and Federal and State grants.

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

General Liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurance includes \$2,000,000 for automobile liability.

In addition, the District maintains replacement cost insurance on buildings and contents in the blanket amount of \$31,751,475.

The District pays all elected and appointed officials' bonds by statute.

As a benefit for employees of the Washington Court House City School District, the District makes available health, dental, and term life insurance for all regular employees who desire coverage. The District pays a portion of the health and dental insurance. The District pays 100% of the term life insurance, single hospitalization, and single dental. The District pays 85% of the family dental, and 80% of the family hospitalization, with the exception of the administrative staff. The District pays 81% of the family hospitalization and 85% of the family dental for administrative staff. The balance remaining on all employees' benefits are deducted through payroll.

13. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Ohio Reads	\$6,842
Poverty Aid	15,617
Special Education	14,563
Miscellaneous Federal Grants	657
Special Enterprise	3,818
Debt Service Fund	24,805
Capital Projects Fund:	
Classroom Facilities	39,800

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

14. FUND BALANCE RESERVES FOR 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 year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve (Carry Forward) Balance as of June 30, 2004	(\$356,080)	\$154,093
Current Year Set-aside Requirement	331,268	331,268
Qualified Disbursements	(372,684)	(210,066)
Current Year Offsets	<u>0</u>	<u>0</u>
Total Set-Aside Reserve Balance as of June 30, 2005	<u>(\$397,496)</u>	<u>\$275,295</u>
Carry Forward to FY 2006	<u>(\$397,496)</u>	

Offset credits for capital activity during the year exceeded the amount required for the set-aside. Qualifying disbursements and carryover from prior years for textbooks totaled \$728,764 resulting in \$397,496 for carryover to offset textbook requirements in future years.

15. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005, consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$158,674	\$0	\$0	\$66,000
Other Governmental Funds	<u>0</u>	<u>158,674</u>	<u>66,000</u>	<u>0</u>
Total All Funds	<u>\$158,674</u>	<u>\$158,674</u>	<u>\$66,000</u>	<u>\$66,000</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

16. CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For 2005, the District has implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the General and Other Governmental Funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Other Governmental Funds</u>
Fund Balances, June 30, 2004	\$2,146,364	\$335,786
GASB Technical Bulletin No. 2004-2	<u>(91,306)</u>	<u>(10,678)</u>
Restated Fund Balance, June 30, 2004	<u>\$2,055,058</u>	<u>\$325,108</u>

A prior period adjustment was required to restate capital assets at June 30, 2004 due to an understatement of accumulated depreciation on equipment in the prior year. This restatement had the following effect on net assets at June 30, 2004:

	Governmental <u>Activities</u>
Net assets as previously reported	\$7,436,491
Restatement for capital assets	<u>135,438</u>
Net assets, restated at July 1, 2004	<u>\$7,571,929</u>

Washington Court House City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$4,477,340	\$4,477,340	\$4,338,964	(\$138,376)
Tuition and Fees	53,970	53,970	52,302	(1,668)
Investment Earnings	33,559	33,559	32,522	(1,037)
Intergovernmental	10,600,351	10,600,351	10,272,739	(327,612)
Other Revenues	102,110	102,110	98,954	(3,156)
Total Revenues	15,267,330	15,267,330	14,795,481	(471,849)
Expenditures:				
Current:				
Instruction:				
Regular	7,869,245	7,944,695	7,241,274	703,421
Special	1,688,419	1,704,607	1,553,682	150,925
Vocational	88,499	89,348	81,437	7,911
Other	535,810	540,947	493,052	47,895
Support Services:				
Pupil	650,858	657,098	598,919	58,179
Instructional Staff	608,019	613,849	559,499	54,350
General Administration	21,249	21,452	19,553	1,899
School Administration	1,378,074	1,391,287	1,268,103	123,184
Fiscal	450,770	455,092	414,798	40,294
Operations and Maintenance	1,830,822	1,848,376	1,684,721	163,655
Pupil Transportation	542,766	547,970	499,453	48,517
Central	58,507	59,068	53,838	5,230
Operation of Non-Instructional Services	2,621	2,646	2,412	234
Extracurricular Activities	410,321	414,255	377,577	36,678
Capital Outlay	10,503	10,604	9,665	939
Total Expenditures	16,146,483	16,301,294	14,857,983	1,443,311
Excess of Revenues Over (Under) Expenditures	(879,153)	(1,033,964)	(62,502)	971,462
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	2,066	2,066	2,002	(64)
Advances In	16,098	16,098	15,600	(498)
Transfers (Out)	(71,724)	(72,411)	(66,000)	6,411
Total Other Financing Sources (Uses)	(53,560)	(54,247)	(48,398)	5,849
Net Change in Fund Balance	(932,713)	(1,088,211)	(110,900)	977,311
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,493,596	1,493,596	1,493,596	0
Fund Balance End of Year	\$560,883	\$405,385	\$1,382,696	\$977,311

See accompanying notes to the required supplementary information.

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2005**

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount that the Board of Education may appropriate. The appropriation resolution is Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund, function and object level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

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

While the 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 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 basis are as follows:

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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$728,293)
Net Adjustment for Revenue Accruals	712,589
Net Adjustment for Expenditure Accruals	144,080
Encumbrances	<u>(239,276)</u>
Budget Basis	<u>(\$110,900)</u>

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
FAYETTE COUNTY, OHIO**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$31,827	\$0	\$31,827
National School Breakfast Program	05-PU-04	10.553	40,510	0	40,510	0
National School Lunch Program	05-PU-05					
National School Lunch Program	LL-P4-04	10.555	251,434	0	251,434	0
National School Lunch Program	LL-P4-05					
Total U.S. Department of Agriculture - Nutrition Cluster			<u>291,944</u>	<u>31,827</u>	<u>291,944</u>	<u>31,827</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (Title VI B)	6B-SF-04	84.027	302,632	0	377,934	0
	6B-SF-05		302,632	0	377,934	0
IDEA Preschool Grant for Handicapped	PG-S1-05	84.173	3,702	0	7,488	0
			3,702	0	7,488	0
Total Special Education Cluster			<u>306,334</u>	<u>0</u>	<u>385,422</u>	<u>0</u>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04	84.010	402,477	0	449,041	0
	C1-S1-05					
Innovative Educational Program Strategies	C2-S1-05	84.298	13,121	0	11,895	0
	C2-S1-04					
Drug-Free Schools Grant	DR-S1-04	84.186	8,690	0	6,756	0
	DR-S1-05					
Title IID, Technology Fund	TJ-S1-05	84.318	8,150	0	8,202	0
	TJ-S1-04					
Improving Teacher Quality State Grants	TR-S1-04	84.367	141,973	0	163,802	0
	TR-S1-05					
Total U.S. Department of Education			<u>880,745</u>	<u>0</u>	<u>1,025,118</u>	<u>0</u>
<u>U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Fud System (CAFS)	N/A	93.778	20,290	0	20,290	0
State Children's Insurance Program	N/A	93.767	1,464	0	1,464	0
Total U.S. Department of Health and Human Services			<u>21,754</u>	<u>0</u>	<u>21,754</u>	<u>0</u>
Totals			<u><u>\$1,194,443</u></u>	<u><u>\$31,827</u></u>	<u><u>\$1,338,816</u></u>	<u><u>\$31,827</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
FAYETTE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Washington Court House City School District
Fayette County
306 Highland Avenue
Washington Court House, Ohio 43160

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington Court House City School District, Fayette County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 20, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

Washington Court House City School District
Fayette County
Independent Accountants' Report on Internal
Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

June 20, 2006



Auditor of State Betty Montgomery

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

Washington Court House City School District
Fayette County
306 Highland Avenue
Washington Court House, Ohio 43160

To the Board of Education:

Compliance

We have audited the compliance of Washington Court House City School District, Fayette County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Washington Court House City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

June 20, 2006

**WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT
FAYETTE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS TO FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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WASHINGTON COURT HOUSE CITY SCHOOL DISTRICT

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 13, 2006**