

Wadsworth City School District

Basic Financial Statements

Year Ended June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Wadsworth City School District
360 College Street
Wadsworth, Ohio 44281

We have reviewed the *Independent Auditor's Report* of the Wadsworth City School District, Medina County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 19, 2007

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WADSWORTH CITY SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2006

The Board of Education
Wadsworth City School District
360 College Street
Wadsworth, Ohio 44281

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadsworth City School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Wadsworth City School District's (the School District's) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- ❑ General Revenues accounted for \$39.4 million in revenue or 89% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$5.1 million or 11% of total revenues of \$44.5 million.
- ❑ Total program expenses were \$40.3 million in governmental activities.
- ❑ In total, net assets of governmental activities increased \$4,225,521 which represents a 24% increase from 2005.
- ❑ Outstanding debt decreased from \$32,882,343 to \$31,356,426, as a result of the payment of bond and note principal.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District activities are listed as:

- ❑ Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation, food service operating, and extracurricular activities.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The financial statement of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the debt service fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general 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.

Proprietary Funds - The School District maintains a proprietary fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an Internal Service Fund to account for its health insurance benefits. Because this service predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 19.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements begin on page 22.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

(Table 1)
Changes in Net Assets

	Governmental Activities	
	2006	2005 Restated
Assets		
Current and Other Assets	\$ 35,827,546	\$ 32,971,749
Capital Assets	43,702,348	44,494,583
Total Assets	<u>79,529,894</u>	<u>77,466,332</u>
Liabilities		
Long-Term Liabilities	34,829,900	36,331,619
Other Liabilities	23,054,457	23,714,697
Total Liabilities	<u>57,884,357</u>	<u>60,046,316</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	16,931,806	16,343,385
Restricted	3,369,041	2,894,332
Unrestricted (Deficit)	1,344,690	(1,817,701)
Total Net Assets	<u>\$ 21,645,537</u>	<u>\$ 17,420,016</u>

Total assets increased by \$2,063,562, this increase was a result of an on-going building project, and deferred charges on the debt refunding.

Total liabilities decreased \$2,161,959, this decrease was primarily the result of payment of bonds and notes payable of \$1.8 million during the year.

As a result of the above, overall net assets of the School District increased \$4,225,521, or 24.26% compared to fiscal year 2005.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005:

(Table 2)
Governmental Activities

	2006	2005 Restated
<i>Revenues:</i>		
Charges for Services	\$ 2,998,270	\$ 2,380,190
Operating Grants	2,117,625	2,946,970
<i>General Revenues:</i>		
Property Taxes	20,921,031	20,481,878
Grants and entitlements, not restricted	17,644,397	16,678,738
Other	859,497	750,706
<i>Total Revenues</i>	44,540,820	43,238,482
<i>Program Expenses:</i>		
Instruction	21,480,977	19,046,031
Support Services	14,231,972	13,068,501
Operation of Non-Instructional	466,638	306,307
Extracurricular Activities	1,007,279	868,696
Interest and Fiscal Charges	1,506,816	1,613,827
Food Service	1,364,848	1,191,843
Uniform School Supplies	25,707	23,603
Vocational Education	124,544	154,348
Adult/Community Education	28,231	405
Bear Cub Academy/Bridges	78,287	52,954
<i>Total Expenses</i>	40,315,299	36,326,515
 Increase/(Decrease) in Net Assets	 \$ 4,225,521	 \$ 6,911,967

A review of Table 2 reflects total revenues of \$44,540,820, which was an increase of \$1,302,338, as compared to 2005. Grants and entitlements increased by \$965,659.

Total expenses increased \$3,988,784, an increase of \$2,434,946 in instruction accounts for the majority of the increase.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

Information about the School District's major funds starts on page 14.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$44.5 million and expenditures of \$40.3 million.

(Table 3)
Governmental Activities

	2006		2005 Restated	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 21,480,977	\$ 19,896,637	\$ 19,046,031	\$ 16,710,408
Support Services:				
Pupil and Instructional Staff	3,303,885	2,682,338	3,122,565	2,608,697
Board of Education, Administration, Fiscal and Business	4,033,504	3,502,128	4,054,680	3,663,404
Operation and Maintenance of Plant	4,640,771	4,464,499	3,368,139	3,361,248
Pupil Transportation	1,403,967	1,336,718	1,512,708	1,512,560
Central	849,845	791,844	1,010,409	963,380
Operation of Non-Instructional	466,638	191,212	306,307	(6,881)
Food Services	1,364,848	45,349	1,191,843	(124,162)
Uniform School Supplies	25,707	(1,545)	23,603	(2,056)
Vocational Educational	124,544	124,544	154,348	154,348
Adult/Community Education	28,231	(3,910)	405	(5,240)
Bear Cub Academy/Bridges	78,287	13,023	52,954	(12,921)
Extracurricular Activities	1,007,279	649,751	868,696	562,743
Interest and Fiscal Charges	1,506,816	1,506,816	1,613,827	1,613,827
Total Expenses	<u>\$ 40,315,299</u>	<u>\$ 35,199,404</u>	<u>\$ 36,326,515</u>	<u>\$ 30,999,355</u>

Instruction and student support services comprise 93% of governmental program expenses. Interest/fiscal charges were 4%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of plant accounts for 6% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for School District students.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, there were minor changes to the School District's total general fund budget. The School District uses site-based budgeting and budgeting systems which are designed to tightly control total site budgets, but provide flexibility for site management.

For the General Fund, the final budget basis revenue increased \$706,196 from the original budget estimates of approximately \$35.0 million. The School District begins the fiscal year with a temporary budget. This is updated in September with Board approval of the permanent appropriations. Budget adjustments are made throughout the year as updated information becomes available.

Actual revenues of \$35.8 million was \$74,408, more than the final budgeted amounts. This amount is deemed immaterial.

Final expenditures of \$35.0 million were \$1,437,680, lower than the approximately \$36.4 million in the final budget, this amount was due to a decrease in capital outlay.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$43.7 million invested in land, land improvements, buildings and improvements, furniture and fixtures, vehicles, and textbooks. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities	
	2006	2005 Restated
Land	\$ 1,111,437	\$ 1,098,615
Land Improvements	1,190,102	1,511,201
Buildings and Improvements	35,178,592	35,844,708
Furniture and Fixtures	3,374,828	3,651,279
Vehicles	828,490	889,709
Textbooks	565,481	671,767
Construction in Progress	1,453,418	827,304
	\$ 43,702,348	\$ 44,494,583

The \$792,235 decrease in capital assets was primarily attributable to depreciation expense exceeding additional purchases. See Note 9 to the basic financial statements for detail of the School District's capital assets.

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Ohio law required school district's to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2006, this amounted to \$700,307 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks. See Note 22 for additional information.

Debt

At June 30, 2006, the School District had \$31,356,426 in outstanding debt with \$1,857,336 due within one year. Table 5 summarizes bonds and notes outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2006	Governmental Activities 2005
General Obligation Bonds:		
1998 School Improvements	\$ 11,724,986	\$ 12,229,986
1999 School Improvements	3,064,997	11,384,997
2000 School Improvements	480,000	1,910,000
2001 Library Improvements	4,605,000	4,825,000
2006 School Improvements (Refunding)	8,695,000	0
Current Interest Serial Bonds	614,990	0
Capital Appreciation Bonds	540,179	0
Refunding Loss	(340,496)	0
Energy Conservation Improvements	900,000	1,000,000
HB 264 Series	331,770	442,360
Note Payable:		
2002 Tax Anticipation	740,000	1,090,000
Totals	\$ 31,356,426	\$ 32,882,343

During the fiscal year, the School District issued refunding bonds in order to take advantage of favorable interest rates. See Note 14 to the basic financial statements for detail on the School District's long-term obligations.

Current Issues

The School District continues to receive strong support from the residents of the Wadsworth City School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was in February, 2003, with the promise that the revenue generated by a levy would provide sufficient funding for five years.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill

Wadsworth City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

would pay \$35.00 annually in taxes. If three years later the home was 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, School District's dependence upon property taxes is hampered by a lack of revenue growth, and must regularly return to the voters to maintain a constant level of service. Property taxes made up 47% of revenues for governmental activities for the School District in fiscal year 2006.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched for the five years it was planned. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education 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.

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern is the State Legislative approval of the biennial budget, effective July 1, 2005. The legislature's plans to fund education programs remain a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the Wadsworth City School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Doug Beeman, Treasurer of Wadsworth City School District, 360 College Street, Wadsworth, Ohio 44281, e-mail dbeeman@wadsworth.k12.oh.us.

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Wadsworth City School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 14,540,057
Receivables:	
Taxes	20,986,026
Accounts	13,400
Accrued Interest	60,950
Intergovernmental	29,085
Deferred Charges	198,028
Nondepreciable Capital Assets	2,564,855
Depreciable Capital Assets (Net)	41,137,493
<i>Total Assets</i>	<u>79,529,894</u>
Liabilities	
Accounts Payable	15,766
Contracts Payable	343,375
Accrued Wages and Benefits	2,887,028
Vacation Benefits Payable	147,319
Mature Compensated Absences Payable	15,188
Intergovernmental Payable	902,408
Unearned Revenue	18,548,200
Claims Payable	195,173
Long Term Liabilities:	
Due Within One Year	2,011,630
Due Within More Than One Year	32,818,270
<i>Total Liabilities</i>	<u>57,884,357</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	16,931,806
Restricted for:	
Capital Projects	1,309,689
Debt Service	1,638,655
Other Purposes	420,697
Unrestricted	1,344,690
<i>Total Net Assets</i>	<u>\$ 21,645,537</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 15,866,171	\$ 592,175	\$ 167,553	\$ (15,106,443)
Special	3,204,001	101,870	502,490	(2,599,641)
Vocational	1,750,969	59,898	134,063	(1,557,008)
Other	659,836	26,291	0	(633,545)
Support Services:				
Pupils	2,138,945	66,201	296,007	(1,776,737)
Instructional Staff	1,164,940	34,436	224,903	(905,601)
Board of Education	218,936	8,717	0	(210,219)
Administration	3,199,255	356,592	143,726	(2,698,937)
Fiscal	613,843	22,282	0	(591,561)
Business	1,470	59	0	(1,411)
Operation and Maintenance of Plant	4,640,771	151,826	24,446	(4,464,499)
Pupil Transportation	1,403,967	49,488	17,761	(1,336,718)
Central	849,845	24,868	33,133	(791,844)
Operation of Non-Instructional Services	466,638	3,446	271,980	(191,212)
Food Service Operations	1,364,848	1,017,936	301,563	(45,349)
Uniform Supplies	25,707	27,252	0	1,545
Vocational Education Customer Services	124,544	0	0	(124,544)
Adult Education	28,231	32,141	0	3,910
Bear Cub Academy	78,287	65,264	0	(13,023)
Extracurricular Activities	1,007,279	357,528	0	(649,751)
Interest and Fiscal Charges	1,506,816	0	0	(1,506,816)
Totals	\$ 40,315,299	\$ 2,998,270	\$ 2,117,625	(35,199,404)

General Revenues

Property Taxes Levied for:		
General Purposes		17,526,097
Debt Service		3,026,556
Capital Outlay		368,378
Grants and Entitlements not Restricted to Specific Programs		17,644,397
Investment Earnings		583,726
Miscellaneous		275,771
Total General Revenues		39,424,925
Change in Net Assets		4,225,521
Net Assets Beginning of Year, Restated (See Note 3)		17,420,016
Net Assets End of Year		\$ 21,645,537

See accompanying notes to the basic financial statements.

Wadsworth City School District

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 10,116,374	\$ 1,370,108	\$ 2,033,767	\$ 13,520,249
Receivables:				
Taxes	18,037,900	2,310,531	637,595	20,986,026
Accounts	2,972	0	9,315	12,287
Interfund	43,226	0	0	43,226
Accrued Interest	60,950	0	0	60,950
Intergovernmental	0	0	29,085	29,085
<i>Total Assets</i>	<u>\$ 28,261,422</u>	<u>\$ 3,680,639</u>	<u>\$ 2,709,762</u>	<u>\$ 34,651,823</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 4,309	\$ 0	\$ 11,457	\$ 15,766
Contracts Payable	343,375	0	0	343,375
Accrued Wages and Benefits	2,747,447	0	139,581	2,887,028
Vacation Benefits Payable	138,649	0	8,670	147,319
Mature Compensated Absences Payable	15,188	0	0	15,188
Interfund Payable	0	0	43,226	43,226
Intergovernmental Payable	844,117	0	58,291	902,408
Deferred Revenue	16,564,965	2,121,868	615,625	19,302,458
<i>Total Liabilities</i>	<u>20,658,050</u>	<u>2,121,868</u>	<u>876,850</u>	<u>23,656,768</u>
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	1,543,125	0	379,167	1,922,292
Reserved for Tax Revenue Unavailable for Appropriation	1,472,935	188,663	51,055	1,712,653
Unreserved:				
Undesignated, Reported in:				
General Fund	4,587,312	0	0	4,587,312
Special Revenue Funds	0	0	234,679	234,679
Debt Service Fund	0	1,370,108	0	1,370,108
Capital Projects Funds	0	0	1,168,011	1,168,011
<i>Total Fund Balances</i>	<u>7,603,372</u>	<u>1,558,771</u>	<u>1,832,912</u>	<u>10,995,055</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 28,261,422</u>	<u>\$ 3,680,639</u>	<u>\$ 2,709,762</u>	<u>\$ 34,651,823</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances		\$ 10,995,055
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		43,702,348
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants	\$ 29,085	
Delinquent Property Taxes	725,173	754,258
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the debt on an accrual basis.		198,028
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		825,748
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds and Notes Payable	(31,356,426)	
Capital Lease Payable	(19,116)	
Compensated Absences	(3,454,358)	(34,829,900)
Net Assets of Governmental Activities		\$ 21,645,537

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 18,001,041	\$ 3,052,758	\$ 375,798	\$ 21,429,597
Intergovernmental	17,237,305	313,403	2,421,788	19,972,496
Investment Income	412,309	64,833	72,346	549,488
Tuition and Fees	582,387	0	124,657	707,044
Extracurricular Activities	0	0	584,729	584,729
Charges for Services	688,561	0	1,017,936	1,706,497
Miscellaneous	91,654	0	218,355	310,009
<i>Total Revenues</i>	<u>37,013,257</u>	<u>3,430,994</u>	<u>4,815,609</u>	<u>45,259,860</u>
Expenditures:				
Current:				
Instruction:				
Regular	15,597,151	0	199,253	15,796,404
Special	2,594,765	0	584,287	3,179,052
Vocational	1,546,264	0	146,446	1,692,710
Other	659,836	0	0	659,836
Support Services:				
Pupils	1,714,933	0	345,658	2,060,591
Instructional Staff	889,048	0	261,548	1,150,596
Board of Education	218,780	0	0	218,780
Administration	2,847,979	0	404,900	3,252,879
Fiscal	602,503	30,784	8,389	641,676
Business	1,470	0	0	1,470
Operation and Maintenance of Plant	4,147,681	0	27,800	4,175,481
Pupil Transportation	1,267,091	0	20,972	1,288,063
Central	635,792	0	34,320	670,112
Operation of Non-Instructional Services	0	0	352,857	352,857
Food Service Operations	0	0	1,340,728	1,340,728
Uniform Supplies	0	0	25,707	25,707
Vocational Education Customer Services	0	0	124,544	124,544
Adult Education	0	0	28,231	28,231
Bear Cub Academy	0	0	78,287	78,287
Extracurricular Activities	601,450	0	407,565	1,009,015
Capital Outlay	734,567	0	20,994	755,561
Debt Service:				
Principal Retirement	74,739	1,725,590	0	1,800,329
Interest and Fiscal Charges	2,039	1,504,777	0	1,506,816
<i>Total Expenditures</i>	<u>34,136,088</u>	<u>3,261,151</u>	<u>4,412,486</u>	<u>41,809,725</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,877,169	169,843	403,123	3,450,135
Other Financing Sources (Uses):				
Proceeds from Refunding Bond Issuance	0	9,309,990	0	9,309,990
Premium on Refunding Debt Issuance	0	540,179	0	540,179
Proceeds From Sales of Capital Assets	1,400	0	0	1,400
Payment to Refunding Bond Escrow Agent	0	(9,650,496)	0	(9,650,496)
Bond Issuance Costs	0	(198,028)	0	(198,028)
Transfers In	0	0	12,069	12,069
Transfers Out	(12,069)	0	0	(12,069)
<i>Total Financing Sources and (Uses)</i>	<u>(10,669)</u>	<u>1,645</u>	<u>12,069</u>	<u>3,045</u>
<i>Net Change in Fund Balance</i>	2,866,500	171,488	415,192	3,453,180
<i>Fund Balance (Deficit) at Beginning of Year</i>	4,736,872	1,387,283	1,417,720	7,541,875
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 7,603,372</u>	<u>\$ 1,558,771</u>	<u>\$ 1,832,912</u>	<u>\$ 10,995,055</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	3,453,180
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Asset Additions	\$ 1,078,424	
Current Year Depreciation	<u>(1,597,149)</u>	(518,725)

Net effect of transactions involving disposal of capital assets are not reflected in the funds.		(273,510)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Grants	(210,474)	
Delinquent Property Taxes	<u>(234,080)</u>	(444,554)

Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		198,028
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Repayment of bond principal and capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond Principal	1,725,590	
Capital Leases	<u>74,739</u>	1,800,329

The issuance of refunding bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are not reflected in the statement of net assets as long-term assets and liabilities.

Payment to refund bond escrow agent	9,650,496	
Proceeds of refunding bonds	(9,309,990)	
Premium on new bonds	<u>(540,179)</u>	(199,673)

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

Increase in Compensated Absences	(98,937)	
Decrease in Vacation Benefits Payable	<u>147,451</u>	48,514

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

		<u>161,932</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>4,225,521</u></u>
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See accompanying notes to the basic financial statements.

Wadsworth City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 17,525,979	\$ 17,525,979	\$ 17,600,387	\$ 74,408
Intergovernmental	16,461,530	17,127,195	17,127,195	0
Investment Income	357,332	371,782	371,782	0
Tuition and Fees	558,676	581,267	581,267	0
Miscellaneous	86,313	89,803	89,803	0
<i>Total Revenues</i>	<u>34,989,830</u>	<u>35,696,026</u>	<u>35,770,434</u>	<u>74,408</u>
Expenditures:				
Current				
Instruction	20,388,424	20,157,730	19,909,657	248,073
Support Services				
Pupils	1,764,295	1,744,105	1,742,452	1,653
Instructional Staff	932,090	921,601	905,243	16,358
Board of Education	251,078	248,401	231,059	17,342
Administration	2,804,815	2,772,895	2,754,815	18,080
Fiscal	584,306	577,620	577,007	613
Business	1,487	1,470	1,470	0
Operation and Maintenance of Plant	4,511,445	4,462,119	4,256,956	205,163
Pupil Transportation	1,310,331	1,295,462	1,283,201	12,261
Central	825,265	817,094	705,175	111,919
Extracurricular Activities	587,230	580,506	580,328	178
Capital Outlay	2,836,320	2,813,064	2,007,024	806,040
<i>Total Expenditures</i>	<u>36,797,086</u>	<u>36,392,067</u>	<u>34,954,387</u>	<u>1,437,680</u>
Excess of Revenues Over (Under) Expenditures	(1,807,256)	(696,041)	816,047	1,512,088
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	1,346	1,400	1,400	0
Refund of Prior Year Expenditures	13,290	13,827	13,827	0
Advances Out	(43,728)	(43,227)	(43,227)	0
Transfers Out	(18,532)	(18,320)	(18,320)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(47,624)</u>	<u>(46,320)</u>	<u>(46,320)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,854,880)	(742,361)	769,727	1,512,088
<i>Fund Balance (Deficit) at Beginning of Year, Restated</i>	6,361,307	6,361,307	6,361,307	0
Prior Year Encumbrances Appropriated	1,437,680	1,437,680	1,437,680	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 5,944,107</u>	<u>\$ 7,056,626</u>	<u>\$ 8,568,714</u>	<u>\$ 1,512,088</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 2006

	<u>Governmental Activities Internal Service Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,019,808
Receivables:	
Accounts	<u>1,113</u>
<i>Total Current Assets</i>	<u>1,020,921</u>
Liabilities	
Current Liabilities:	
Claims Payable	<u>195,173</u>
<i>Total Current Liabilities</i>	195,173
Net Assets	
Unrestricted	<u>825,748</u>
<i>Total Net Assets</i>	<u><u>\$ 825,748</u></u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for Services	\$ 3,694,393
Operating Expenses:	
Purchased Services	259,279
Claims	3,307,420
<i>Total Operating Expenses</i>	<i>3,566,699</i>
Operating income (loss)	127,694
Non-Operating Revenues (Expenses):	
Interest	34,238
<i>Total Non-Operating Revenues (Expenses)</i>	<i>34,238</i>
<i>Change in Net Assets</i>	161,932
<i>Net Assets (Deficit) Beginning of Year</i>	<i>663,816</i>
<i>Net Assets (Deficit) End of Year</i>	<i>\$ 825,748</i>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Service Charges	\$ 3,693,280
Cash Paid for Goods and Services	(334,729)
Cash Paid for Claims	(3,230,933)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>127,618</u>
Cash Flows From Investing Activities:	
Interest on Investments	<u>34,238</u>
<i>Net Cash Provided By (Used For) Investing Activities</i>	<u>34,238</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	161,856
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>857,952</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,019,808</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ 127,694
Adjustments:	
(Increase) Decrease Assets	
Accounts Receivable	(1,113)
Increase (Decrease) in Liabilities	
Accounts Payable	(75,450)
Claims Payable	<u>76,487</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ 127,618</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 135,375</u>
Liabilities	
Accrued Wages	\$ 10,947
Intergovernmental Payable	2,591
Undistributed Monies	<u>121,837</u>
<i>Total Liabilities</i>	<u>\$ 135,375</u>

See accompanying notes to the basic financial statements.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT

The Wadsworth City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member board of education and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's eight instructional/support facilities staffed by 222 noncertificated employees and 296 certificated full-time teaching personnel who provide services to 4,580 students and other community members.

The School District provides more than instruction to its students. These additional services include student guidance, extracurricular activities, educational media, and care and upkeep of grounds and buildings. The operation of each of these activities is directly controlled by the Board of Education through the budgetary process. These School District operations will be included as part of the reporting entity.

Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the School District's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the School District. Management has determined the School District has no component units.

On this basis, the basic financial statements include all of the funds of the School District over which the Board of Education exercises operating control.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", Statement No. 46, "*Net Assets Restricted by Enabling Legislation*", and Statement No. 47, "*Accounting for Termination Benefits*".

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balances as a result of the implementation of these new Standards. The following are the most significant of the School District's accounting policies.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

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

Debt Service Fund The Debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds used for the upgrade of school facilities.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position and cash flows. The following is the School District's proprietary fund type:

Internal Service Fund The Internal Service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only Internal Service fund accounts for a self-insurance program for employee medical, dental, and prescription drug benefits.

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 School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. The School District's agency fund accounts for student activities, and the Four Cities Educational Compact as shown in Note 18.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary fund activities.

Fiduciary funds are reported using the economic resources management focus and are excluded from the Government-Wide Financial Statements.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

D. Basis of Accounting

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

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

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

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

Deferred/Unearned Revenue Deferred/Unearned 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred/unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred/unearned revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, the School District had investments in STAROhio, (the State Treasurer's Investment Pool) and Federal Home Loan Mortgage Corporation bonds held through National City Investments. See Note 6 for a full listing of the School District's investments. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investments contracts such as overnight repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

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

Following Ohio statutes, the Board of Education has, by resolutions, identified the funds to receive an allocation of interest. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$412,309, which includes \$150,380 from Other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and capital improvements. See Note 22 for additional information regarding set asides.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives
Land	N/A
Land Improvements	39 Years
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	13 Years
Textbooks	5 Years

H. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB 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 employer will compensate the employees for the benefits through paid time off or some other means. These amounts are recorded as vacation benefits payable in the basic financial statements.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

I. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

J. Net Assets

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

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

K. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenue and expenses not meeting these definitions are classified as non-operating.

M. Interfund Activity

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

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.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in the nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

O. 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.

P. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.

The 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 in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

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

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3 – RESTATEMENT OF NET ASSETS

During fiscal year 2006, the amount of \$636,747 in contracts payable was deemed to be construction in progress, and \$794 was for depreciation that was incorrectly calculated for construction in progress. The results of net assets is summarized below:

Governmental Activities	
Net Assets at June 30, 2005	\$ 16,782,475
Adjustment to construction in progress	636,747
Adjustment to accumulated depreciation	794
Restated Net Assets at July 1, 2005	<u>\$ 17,420,016</u>

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – ACCOUNTABILITY

Fund balances/net assets at June 30, 2006 included the following individual fund deficits:

	Deficit	
	Fund Balance	Net Assets
Other Governmental Funds:		
Bear Cub Academy/Bridges	\$ 1,408	\$ 1,408
IDEA-B Grant	42,023	42,023
Carl Perkins Compact	25,920	25,920
Title I	3,096	3,096
Title V	1,371	1,371
Class Reduction Grant	35,702	6,617

The deficits in these governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the non-major governmental funds and will provide transfers when cash is required, not when accruals occur.

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund 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 that:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance	
	General
GAAP Basis	\$ 2,866,500
Net Adjustment for Revenue Accruals	(1,228,996)
Net Adjustment for Expenditure Accruals	679,136
Adjustment for Encumbrances	(1,546,913)
Budget Basis	\$ 769,727

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

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

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (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;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School District's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105% of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Cash on Hand At year end, the School District had \$1,891 in undeposited cash on hand which is included on the balance sheet of the School District as part of equity in pooled cash and cash equivalents.

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$2,238,283 and the bank balance was \$2,386,987. Of the bank balance:

1. \$388,383 of the bank balance was covered by federal depository insurance; and
2. \$1,998,604 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments – Investments are reported at fair value. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Investments are reported at fair value. As of June 30, 2006, the School District had the following investments:

Rating by Moody	Entity	Fair Value	Investment Maturities			Percentage of Total Investment
			In Months (0-6)	In Months (7-12)	In Months More than 24	
N/A	Huntington National Bank (MM)	\$ 1,679,772	\$ 1,679,772	\$ 0	\$ 0	13.51%
AAAm**	STAROhio	3,426,248	3,426,248	0	0	27.55%
Aaa	Federal Home Loan Bank	999,450	0	0	999,450	8.04%
Aaa	Federal Home Loan Mortgage Corp	4,387,067	2,387,067	2,000,000	0	35.28%
Aaa	Federal National Mortgage Assoc	1,942,719	942,719	1,000,000	0	15.62%
		<u>\$ 12,435,256</u>	<u>\$ 8,435,806</u>	<u>\$ 3,000,000</u>	<u>\$ 999,450</u>	<u>100.00%</u>

** Rated by Standard and Poor's

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Credit Risk – The School District’s investment credit ratings are summarized above.

Concentration of Credit Risk –The School District places no limit on the amount the School District may invest in any one issuer. See percentage’s above.

NOTE 7 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at 35% of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at 35% of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005 on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 % of true value for capital assets and 23 % of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Medina County. The Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$1,472,935 in the General Fund, \$188,663 in the Bond Retirement Debt Service Fund, and \$51,055 in the Permanent Improvement Capital Projects Fund.

On the 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 since it has not been received within the available period.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 539,301,870	88.95%	\$ 561,398,670	91.76%
Public Utility	10,730	0.00%	26,380	0.00%
Tangible Personal Property	66,973,694	11.05%	50,359,982	8.23%
	<u>\$ 606,286,294</u>	<u>100.00%</u>	<u>\$ 611,785,032</u>	<u>100.00%</u>
Tax rate per \$1,000 assessed valuation	\$ 50.86		\$ 50.86	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, interest, accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Intergovernmental receivables as of June 30, 2006:

Governmental Activities:	
Title II-A (Classroom Reduction)	\$ 29,085

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance 6/30/05	Additions	Reductions/ Adjustments	Balance 6/30/06
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,098,615	\$ 0	\$ 12,822	\$ 1,111,437
Construction in progress	827,304	625,320	794	1,453,418
<i>Total Capital Assets, not being depreciated:</i>	<u>1,925,919</u>	<u>625,320</u>	<u>13,616</u>	<u>2,564,855</u>
<i>Capital Assets, being depreciated:</i>				
Land improvements	2,072,182	0	(245,463)	1,826,719
Buildings and improvements	51,194,662	13,195	(19,095)	51,188,762
Furniture and equipment	9,685,735	380,661	(665,087)	9,401,309
Vehicles	2,019,688	59,248	(16,200)	2,062,736
Textbooks	1,773,632	0	0	1,773,632
Total Capital Assets, being depreciated	<u>66,745,899</u>	<u>453,104</u>	<u>(945,845)</u>	<u>66,253,158</u>
Less Accumulated Depreciation:				
Land improvements	(560,981)	(75,959)	323	(636,617)
Buildings and improvements	(15,349,954)	(677,402)	17,980	(16,009,376)
Furniture and equipment	(6,034,456)	(619,450)	626,631	(6,027,275)
Vehicles	(1,129,979)	(118,052)	13,785	(1,234,246)
Textbooks	(1,101,865)	(106,286)	0	(1,208,151)
Total Accumulated Depreciation	<u>(24,177,235)</u>	<u>(1,597,149)</u>	<u>658,719</u>	<u>(25,115,665)</u>
Total Capital Assets being depreciated, net	<u>42,568,664</u>	<u>(1,144,045)</u>	<u>(287,126)</u>	<u>41,137,493</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 44,494,583</u>	<u>\$ (518,725)</u>	<u>\$ (273,510)</u>	<u>\$ 43,702,348</u>

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Depreciation expense was charged to governmental functions as follows:

Governmental Functions:	
Instruction:	
Regular	\$ 248,824
Special	5,899
Vocational	50,624
Support Services:	
Pupil	70,336
Instructional Staff	9,246
Board	156
Administration	17,671
Fiscal	2,661
Operation and Maintenance of Plant	824,214
Central	188,296
Pupil Transportaion	118,260
Operation of Non-Instructional Services	27,304
Food Services	24,120
Extracurricular Activities	9,538
	9,538
Total Depreciation	\$ 1,597,149

NOTE 10 – RISK MANAGEMENT

A. Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; employee injuries; and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$10,000 per incident and a policy limit of \$123,940,256. The School District’s vehicle liability insurance policy limit is \$1,000,000 with a \$1,000 collision deductible. All administrators and employees are covered under a School District liability policy and an umbrella policy. The combined limits of these coverages are \$7,000,000 per occurrence and \$8,000,000 in aggregate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction of coverage from the prior fiscal year.

B. Fidelity Bonds

The Board President and Superintendent have a \$20,000 position bond. The Treasurer is covered under a surety bond in the amount of \$20,000. All other school employees who are responsible for handling funds are covered by a \$20,000 crime coverage bond.

C. Workers’ Compensation

The School District pays the State Workers’ Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio Association of School Business Official’s Group Rating Program, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

D. Employee Health Insurance

The School District has established a health care self-insurance fund. The purpose of this fund is to pay medical and dental claims of the School District’s employees and their covered dependents in order to minimize the total cost of annual health care insurance. The School District has contracted with a third party administrator to direct this program. Self-insurance is in effect for aggregate claims up to \$3,768,807 per fiscal year with a \$150,000 stop-loss per individual participant. Claims in excess of this aggregate stop loss are insured by private carriers.

The claims liability of \$195,173 reported in the fund at June 30, 2006 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the School District’s third party administrator. A summary of the fund’s claims liability in fiscal years 2005 and 2006 is as follows:

	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2005	\$ 245,948	\$ 3,043,819	\$ (3,171,081)	\$ 118,686
2006	\$ 118,686	\$ 3,307,420	\$ (3,230,933)	\$ 195,173

NOTE 11 – OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees working eleven or twelve months per year are entitled to an annual vacation, with pay, based on length of service in the School District. Accumulated unused vacation time is paid to employees upon termination of employment. Teachers and administrators working fewer than ten months per year do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for classified employees and 230 days for certified employees. For certified employees, payment is made at the time of termination for 30% of a certified employee’s accumulated sick leave up to 200 days, a benefit of up to 60 days. For classified employees, payment is made at the time of termination for 40% of a classified employee’s accumulated sick leave up to 162 and one-half days, a benefit of up to 65 days. Certified receive \$100 per year until they reach the 60 day cap if retiring after 15 years, for each year with the School District. Classified receive 1 day of sick pay until they reach the 65 day cap if retiring after 15 years, for each year with the School District.

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org, under Forms and Publications.

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 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 School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$655,813, \$663,720, and \$664,392, respectively; 37% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$411,949 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2005 (the latest information available), plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,267,630, \$2,177,976, and \$2,146,680, respectively; 82% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$24,485 made by the School District and \$72,414 made by the plan members. \$412,360 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 – POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2005 (the latest information available), the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$166,974 during the 2006 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005 (the latest information available), the health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2005, (the latest information available), 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 minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, (the latest information available), the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$411,949.

Net health care costs for year ending June 30, 2005, (the latest information available), were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, (the latest information available), the value of the health care fund was \$267.5 million which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS had approximately 58,123 participants currently receiving health care benefits.

NOTE 14 – LONG TERM DEBT OBLIGATIONS

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

	Outstanding 6/30/05	Additions	Reductions	Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities:					
Notes Payable:					
Tax Anticipation Note (Capital Related) 3.45%	\$ 1,090,000	\$ 0	\$ 350,000	\$ 740,000	\$ 365,000
General Obligation Bonds:					
School Improvement Bonds-2006					
Serial Bonds - 4-4.2%, 6/06-12/22	0	8,695,000	0	8,695,000	40,000
Capital Appreciation bonds					
12.1-12.2%, 12/14 - 12/15	0	614,990	0	614,990	0
Premium	0	540,179	0	540,179	31,775
Refunding Loss	0	(340,496)	0	(340,496)	(20,029)
School Improvement Bonds-1998					
3.75-5.125%, 4/98 - 12/22	12,229,986	0	505,000	11,724,986	530,000
School Improvement Bonds-1999					
3.30-5.00%, 4/99 - 12/22	11,384,997	0	8,320,000	3,064,997	390,000
School Improvement Bonds-2000					
4.25-5.75%, 4/00 - 12/22	1,910,000	0	1,430,000	480,000	85,000
Library Improvement Bonds-2001 (See Note 16)					
3.00-5.15%, 12/01 - 12/22	4,825,000	0	220,000	4,605,000	225,000
HB 264 Series - 2004					
4.04%, 06/04 - 12/08	442,360	0	110,590	331,770	110,590
Energy Conversation Imp Bonds					
2001, 5.25%, 12/01 - 12/14	1,000,000	0	100,000	900,000	100,000
Total General Obligation Bonds	31,792,343	9,509,673	10,685,590	30,616,426	1,492,336
Capital Lease Payable	93,855	0	74,739	19,116	19,116
Compensated Absences	3,355,421	107,933	8,996	3,454,358	135,178
Total Governmental Activities					
Long-Term Liabilities	\$ 36,331,619	\$ 9,617,606	\$ 11,119,325	\$ 34,829,900	\$ 2,011,630

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

2006 School Improvement Refunding General Obligation Bonds

On June 1, 2006, the School District issued \$9,309,990 refunded general obligation bonds. The proceeds of the bonds were used to refund \$7,960,000 of the School District's outstanding 1998 and 1999 School Improvement bonds, and \$1,350,000 of the outstanding 2000 School Improvement bonds. The bonds were issued for an 18 year period with final maturity at December 1, 2022. At the date of the refunding, \$9,650,496 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bonds. As of June 30, 2006, \$9,310,000 of these bonds are considered defeased.

These refunding bonds were issued with a premium of \$540,179, which is reported as an increase to bonds payable. The amounts are being amortized to interest expenses over the life of the bonds using the straight-line method, the amortization for June 30, 2006 was \$0. The issuance costs of \$198,028 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method, the amortization for June 30, 2006 was \$0. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$340,496. This difference, reported in the accompanying financial statements as a difference to bonds payable is being amortized to interest expense over the life of the bonds using the straight line method, the amortization of this difference for fiscal year 2006 was \$0. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$418,484. The issuance resulted in an economic gain of \$306,718.

The bond issue consists of serial and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds mature December 1, 2014 and 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$614,990.

General obligation bonds and notes payable will be paid from the Debt Service fund. Compensated absences will be paid from the General Fund and respective funds. The capital lease payable will be paid from the General Fund.

The net proceeds of the 2002 Tax Anticipation Notes were used to provide funding for capital improvements.

Principal and interest requirements to retire general obligation bonds and notes payable outstanding at June 30, 2006 are as follows:

NOTES PAYABLE			
Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 365,000	\$ 20,628	\$ 385,628
2008	375,000	6,937	381,937
Total	\$ 740,000	\$ 27,565	\$ 767,565

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

GENERAL OBLIGATION/CAPITAL APPRECIATION BONDS

Fiscal Year Ending June 30	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Accretion/ Interest
	2007	\$ 1,480,590	\$ 1,584,928	\$ 0	\$ 0	\$ 1,480,590
2008	1,214,313	2,124,803	0	0	1,214,313	2,124,803
2009	1,256,854	2,084,892	0	0	1,256,854	2,084,892
2010	1,615,000	1,601,623	0	0	1,615,000	1,601,623
2011	1,326,916	1,911,545	0	0	1,326,916	1,911,545
2012 - 2016	6,278,074	6,555,782	614,990	1,800,677	6,893,064	8,356,459
2017 - 2021	11,270,000	2,697,503	0	0	11,270,000	2,697,503
2022 - 2026	5,360,000	303,210	0	0	5,360,000	303,210
Total	\$ 29,801,747	\$ 18,864,286	\$ 614,990	\$ 1,800,677	\$ 30,416,737	\$ 20,664,963

NOTE 15 – CAPITALIZED LEASES

Capital lease obligations relate to the School District’s long term obligation for fitness equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease principal payments amounted to \$74,739 for the fiscal year ended June 30, 2006. The carrying cost of the capital lease assets is \$218,901.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006.

Fiscal year Ending June 30, 2007	\$ 19,170
Less: amount representing interest	(54)
Present Value of Net Minimum Lease Payments	<u>\$ 19,116</u>

NOTE 16 – THIRD PARTY OBLIGATIONS

To provide for expansion and other permanent improvements at the Ella M. Everhard Public Library, the School District issued permanent improvement bonds. These bonds are general obligations of the School District, payable from a tax levy passed by the voters of the Wadsworth City School District and backed by the full faith and credit of the School District. The assets related to this debt are assets of Ella M. Everhard Public Library. Due to the fact that the School District has reported the debt with no corresponding asset, the deficit unrestricted net assets were decreased by \$5,240,000 in fiscal year 2003.

At June 30, 2006, Library Improvement Bonds outstanding totaled \$4,605,000.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 17 – INTERFUND TRANSACTIONS

The account balances by fund of “Interfund Receivable” and “Interfund Payable” as of June 30, 2006 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 43,226	\$ 0
Other Governmental Funds	0	43,226
Total	\$ 43,226	\$ 43,226

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2006, all interfund payables outstanding are anticipated to be repaid in fiscal year 2007.

The following is a summarized breakdown of the School District’s operating transfers for fiscal year 2006:

Fund	Transfers In	Transfers Out
General Fund	\$ 0	\$ (12,069)
Other Governmental Funds	12,069	0
	\$ 12,069	\$ (12,069)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

Midland Council of Governments

The Midland Council of Governments is a jointly governed organization among twenty-two boards of education. The Council of Governments was formed to provide efficient and cost effective computer and data processing services to member boards. Financial support for the Council of Governments is provided by member fees levied according to the number of students within each member’s respective district. The Executive Committee determines and sets the fees for all services.

Representation on the Midland Council of Governments consists of one member appointed by each member board of education. The representative shall be either the superintendent, assistant superintendent or treasurer of the member district board of education. The Council of Governments is governed by the Executive Committee who are elected for two year terms except the position of fiscal agent superintendent which is a permanent appointment. The Executive Committee consists of seven members. The members are two superintendents, two treasurers, two members-at-large and the fiscal agent superintendent.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Four Cities Educational Compact

The Four Cities Educational Compact is a jointly governed organization among four boards of education. The compact was formed to provide a full range of career technical education opportunities for the students. Students from any of the four districts may participate in programs at all four districts. Operating costs are apportioned based on student placement. Wadsworth City School District is the fiscal agent for the Compact and has accounted for the financial activity of the Compact as an agency fund. The School District also has received a federal grant on behalf of the Compact, which has been included on the Schedule of Federal Financial Assistance. The Administrative Board of the Compact is comprised of the superintendent from each district. Each superintendent serves a one year term as chairman on a rotating basis.

NOTE 19 – RELATED ORGANIZATIONS

The Ella M. Everhard Public Library (the “Library”) is a related organization to the School District. The school board members are responsible for appointing all the trustees of the Library; however, the school board cannot influence the Library’s operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the tax authority for the Library. Once the Library determines to present a levy to the voters, including the determination to the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during fiscal year 2006. In 2000 the school board did place a levy on the ballot for the library. The purpose of this levy was to repay library renovation and expansion bonds. The total amount of bonds issued was \$5,599,995. The electors of the School District approved the levy. See Note 16 for additional disclosures regarding the bond issue.

NOTE 20 - CONTINGENCIES

Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the School District at June 30, 2006.

Litigation

The School District is not currently a party to any legal proceedings which would have a material impact on the financial statements.

Wadsworth City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 21 – CONSTRUCTION COMMITMENTS

The following construction commitments at June 30, 2006 will be financed with capital project funds revenues:

Project	Total Authorized Cost	Expended to June 30, 2006	Balance at June 30, 2006
Isham Memorial	\$ 987,985	\$ 297,992	\$ 689,993

NOTE 22 – 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 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.

	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Carryover Balance as of June 30, 2005	\$ 0	\$ (2,821,191)	\$ (2,821,191)
Current Year Set-Aside Requirement	700,307	700,307	1,400,614
Qualifying Disbursements	(1,744,008)	(737,231)	(2,481,239)
Total	<u>\$ (1,043,701)</u>	<u>\$ (2,858,115)</u>	<u>\$ (3,901,816)</u>
Cash Balance Carried Forward FY 2007	<u>\$ 0</u>	<u>\$ (2,858,115)</u>	<u>\$ (2,858,115)</u>
Amount to Restrict for Set-Asides			<u>\$ 0</u>
Total Restricted Assets			<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. The excess qualifying textbook disbursements may be used to reduce the set-aside requirement in future fiscal years.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2006

To the Board of Education
Wadsworth City School District
Medina County, Ohio

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadsworth City School District as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wadsworth City School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Wadsworth City School District in a separate letter dated November 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wadsworth City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Wadsworth City School District in a separate letter dated November 20, 2006.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 20, 2006

To the Board of Education
Wadsworth City School District
Medina County, Ohio

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

Compliance

We have audited the compliance of Wadsworth City Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the School District's major program for the year ended June 30, 2006. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Wadsworth City School District's management. Our responsibility is to express an opinion on Wadsworth City School'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 the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Wadsworth City School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Wadsworth City School's compliance with those requirements.

In our opinion, Wadsworth City School District complied, in all material respects, with the requirements referred to above that are applicable to its major program for the year ended June 30, 2006. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Wadsworth City School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Wadsworth City School District's internal control over compliance with requirements that could have a direct and material effect on its major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Wadsworth City Schools as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 20, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

WADSWORTH CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-2006	\$ 152,913	\$ 144,189	0
Title I {C}	84.010	C1-S1-2005	(1,885)	0	0
Total Title I			151,028	144,189	0
<i>Special Education Cluster</i>					
IDEA-B	84.027	6B-SF-2006	919,884	899,714	0
IDEA-B	84.027	6B-SD-2006	61,249	52,110	0
IDEA-B	84.027	6B-SF-2005	64,693	64,693	0
IDEA-B {C}	84.027	6B-SD-2005	(206)	0	0
Total IDEA-B			1,045,620	1,016,517	0
EARLY CHILDHOOD SE	84.173	PG-S1-2006	20,409	20,409	
EARLY CHILDHOOD SE	84.173	PG-S1-2005	2,012	2,012	0
Total Preschool Grants			22,421	22,421	0
<i>Total Special Education Cluster</i>			1,068,041	1,038,938	0
Safe and Drug-Free Schools and Communities	84.186	DR-S1-2006	14,663	12,676	0
Total Safe and Drug-Free Schools and Communities			14,663	12,676	0
Carl Perkins - Vocational Education	84.048	20-C1-2006	209,027	219,931	0
Carl Perkins - Vocational Education	84.048	20-C1-2005	14,094	7,925	
Carl Perkins - Vocational Education	84.048	20-A0-2005	10,000	139	0
Total Vocational Education			233,121	227,995	0
Title II-D - Technology	84.318	TJ-S1-2006	3,100	3,100	0
Total Title II-D - Technology			3,100	3,100	
Title V	84.298	C2-S1-2006	9,678	11,479	0
Title V	84.298	C2-S1-2005	6,191	6,191	0
Total Title V			15,869	17,670	0
Title II-A TQU	84.367	TR-S1-2006	101,904	118,957	0
Title II-A TQU	84.367	TR-S1-2005	16,998	16,998	0
Total Title II-A			118,902	135,955	0
Total Department of Education			1,604,724	1,580,523	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Food Distribution Program (A) (B)	10.550		38,870	0	38,870
<i>Nutrition Cluster:</i>					
Breakfast Fed. Aid (B)	10.553		40,921	40,921	0
National School Lunch Program (B)	10.555		212,798	212,798	0
Total Nutrition Cluster			253,719	253,719	0
Total Department of Agriculture			292,589	253,719	38,870
Total Federal Assistance			\$ 1,897,313	\$ 1,834,242	\$ 38,870

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(C) Refunded Receipt

**WADSWORTH CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster CFDA # 84.027 & 84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted



Mary Taylor, CPA
Auditor of State

WADSWORTH CITY SCHOOL DISTRICT

MEDINA 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
FEBRUARY 1, 2007**