



Mary Taylor, CPA
Auditor of State

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio (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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2007, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

March 26, 2007

Wellston City School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$224,872.
- General revenues accounted for \$12,362,559 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,199,709, 25 percent of total revenues of \$16,562,268.
- Total assets of governmental activities decreased \$768,226, primarily due to the depreciation of capital assets and reductions in cash and cash equivalents in segregated accounts.
- The School District had \$16,787,140 in expenses related to governmental activities; only \$4,199,709 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$12,362,559 were not adequate to provide for these programs.
- The School District's only major fund is the General Fund. The General Fund had \$12,655,426 in revenues and \$11,602,637 in expenditures. The General Fund's balance increased \$1,035,261.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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

Wellston City School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

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

Fiduciary Funds The School District accounts for resources held for the benefit of parties outside the government as fiduciary funds. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the School District's own programs. The School District uses accrual accounting for fiduciary funds.

Wellston City School District, Ohio

*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
Net Assets**

	Governmental Activities		
	2006	2005	Change
Assets			
Current and Other Assets	\$11,725,902	\$11,904,175	(\$178,273)
Capital Assets	35,248,164	35,838,117	(589,953)
Total Assets	<u>46,974,066</u>	<u>47,742,292</u>	<u>(768,226)</u>
Liabilities			
Long-Term Liabilities	3,633,187	3,937,462	(304,275)
Other Liabilities	4,562,536	4,801,615	(239,079)
Total Liabilities	<u>8,195,723</u>	<u>8,739,077</u>	<u>(543,354)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	32,234,084	32,644,271	(410,187)
Restricted	2,721,846	3,686,440	(964,594)
Unrestricted	3,822,413	2,672,504	1,149,909
Total Net Assets	<u>\$38,778,343</u>	<u>\$39,003,215</u>	<u>(\$224,872)</u>

Total assets decreased \$768,226. The majority of this decrease was due to reductions in cash in segregated accounts and the depreciation of capital assets. The decrease in cash and cash equivalents in segregated accounts is entirely attributable to the completion of the School District's Classroom Facilities construction project and the payment of escrow to the different entities involved with the construction project.

Total liabilities decreased \$543,354. This decrease is primarily due to the completion of the School District's Classroom Facilities construction project and the corresponding decreases in both contracts and retainage payables of \$86,047, and decreases in intergovernmental payables of \$35,496, accrued wages and benefits payable of \$106,701, vacation benefits payable of \$85,417, deferred revenue of \$101,171, and long term liabilities of \$304,185. These decreases were offset primarily by an increase in accounts payable of \$175,813.

Wellston City School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, and comparisons to fiscal year 2005.

**Table 2
Changes in Net Assets**

	Governmental Activities		
	2006	2005	Change
Revenues			
Program Revenues:			
Charges for Services	\$700,560	\$710,880	(\$10,320)
Operating Grants, Contributions and Interest	3,439,461	3,115,912	323,549
Capital Grants, Contributions and Interest	59,688	37,127	22,561
	<u>4,199,709</u>	<u>3,863,919</u>	<u>335,790</u>
General Revenues:			
Property Taxes	2,971,932	2,615,349	356,583
Grants and Entitlements	9,095,532	9,324,007	(228,475)
Investment Earnings	193,998	104,244	89,754
Miscellaneous	101,097	185,075	(83,978)
	<u>12,362,559</u>	<u>12,228,675</u>	<u>133,884</u>
Total Revenues	<u>16,562,268</u>	<u>16,092,594</u>	<u>469,674</u>
Program Expenses			
Instruction:			
Regular	6,828,070	6,908,884	(80,814)
Special	2,696,180	2,584,178	112,002
Vocational	211,090	255,086	(43,996)
Adult/Continuing	446	0	446
Support Services:			
Pupils	669,664	486,156	183,508
Instructional Staff	976,600	1,019,144	(42,544)
Board of Education	115,264	310,566	(195,302)
Administration	1,296,362	1,359,628	(63,266)
Fiscal	385,119	422,827	(37,708)
Business	17,038	0	17,038
Operation and Maintenance of Plant	1,117,579	919,054	198,525
Pupil Transportation	993,845	967,024	26,821
Central	88,649	89,728	(1,079)
Food Service Operations	885,268	803,396	81,872
Community Services	34,557	80,597	(46,040)
Extracurricular Activities	311,867	344,858	(32,991)
Interest and Fiscal Charges	159,542	166,035	(6,493)
Total Expenses	<u>16,787,140</u>	<u>16,717,161</u>	<u>69,979</u>
Decrease in Net Assets	(224,872)	(624,567)	399,695
Net Assets Beginning of Year	<u>39,003,215</u>	<u>39,627,782</u>	<u>(624,567)</u>
Net Assets End of Year	<u>\$38,778,343</u>	<u>\$39,003,215</u>	<u>(\$224,872)</u>

Wellston City School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

While the School District was able to maintain a stable financial position from fiscal year 1994 through fiscal year 2006, the economic pressures of academic requirements has outpaced available resources. Although the School District saw increases in foundation revenue and property tax revenue, expenses required to maintain the same levels of service still outpaced revenue. The decrease in net assets was minimized by holding expenses steady with the previous year.

Net assets of the School District's governmental activities decreased by \$224,872 in fiscal year 2006. Program revenues of \$4,199,709 and general revenues of \$12,362,559 did not offset total governmental expenses of \$16,787,140. Program revenues supported 25 percent of total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 98 percent of total general revenue. Grants and entitlements, alone, represent 74 percent of general revenues. Interest income, and miscellaneous revenue account for the remaining 2 percent.

Instruction comprises approximately 58 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 34 percent. The remaining 8 percent of program expenses is used for other obligations of the School District such as non-instructional service, food service operations, extracurricular activities, and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3
Governmental Activities**

	2006 Total Cost of Services	2006 Net Cost of Services	2005 Total Cost of Services	2005 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$6,828,070	\$5,367,235	\$6,908,884	\$5,721,813
Special	2,696,180	1,569,348	2,584,178	1,564,548
Vocational	211,090	183,315	255,086	177,905
Adult/Continuing	446	(52)	0	0
Support Services:				
Pupil	669,664	521,121	486,156	273,026
Instructional Staff	976,600	739,803	1,019,144	776,316
Board of Education	115,264	109,361	310,566	307,620
Administration	1,296,362	1,195,397	1,359,628	1,267,374
Fiscal	385,119	324,338	422,827	410,376
Business	17,038	17,038	0	0
Operation and Maintenance of Plant	1,117,579	1,080,939	919,054	889,688
Pupil Transportation	993,845	925,232	967,024	901,520
Central	88,649	88,649	89,728	89,598
Food Service Operations	885,268	144,962	803,396	88,407
Community Services	34,557	(13,300)	80,597	46,557
Extracurricular Activities	311,867	174,503	344,858	172,459
Interest and Fiscal Charges	159,542	159,542	166,035	166,035
Totals	<u>\$16,787,140</u>	<u>\$12,587,431</u>	<u>\$16,717,161</u>	<u>\$12,853,242</u>

Wellston City School District, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 75 percent of instruction activities are supported through taxes and other general revenues.

THE SCHOOL DISTRICT'S FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,867,695 and expenditures of \$16,589,411.

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 2006, the School District amended its General Fund appropriations although none the amendments were significant. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis estimated revenue was \$12,804,694, above original estimates of \$12,329,455. This \$475,239 difference was due to deflated intergovernmental estimates, based on the State's budget reduction, higher tax receipts, increased miscellaneous receipts, and higher than expected tuition and fee revenues due to increased participation from other school districts in our special education offerings. Final appropriations were \$2,123,835 below originals due to conservative spending.

The School District's ending unobligated general fund balance was \$5,347,697.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the School District had \$35,248,164 invested in land, buildings, furniture and equipment, vehicles, and textbooks. Table 4 shows fiscal year 2006 balances compared to 2005.

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

	<u>Government Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$313,189	\$313,189
Buildings and Improvements	31,191,391	31,682,086
Furniture, Fixtures, and Equipment	2,020,543	2,221,300
Vehicles	664,052	575,523
Textbooks	1,058,989	1,046,019
Totals	<u>\$35,248,164</u>	<u>\$35,838,117</u>

For addition information on capital assets, see note 10 to the basic financial statements.

Wellston City School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Debt

At June 30, 2006, the School District had general obligation bonds outstanding of \$2,995,000 and \$19,080 in capital leases. The lease is for fitness equipment. For additional information on debt, see note 15 to the basic financial statements.

CURRENT ISSUES

The financial future of the School District is not without its challenges. These challenges are external and internal in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes and State subsidies to fund its operations. Due to slow economic growth, the School District does not foresee any sustainable growth in revenue from property taxes or State subsidies. Thus, management must diligently plan expenses from the modest growth attained, staying carefully within its five-year forecast. Additional revenues from what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the School District is largely dependent on State funding sources (nearly 80 percent of the School District's operating funds come from State foundation payments and other entitlements). State foundation revenue is fundamentally a function of student enrollment and a district's property tax wealth. The School District has seen a slight decline in student enrollment in recent years and while State revenue growth has shifted toward school districts with low property tax wealth, declining enrollment has served to somewhat offset any increase in State funding.

Although higher per-pupil funding has helped the School District lessen the impact of required budget cuts, much of the positive impact has been offset by other negative financial factors that occurred in the past year (decreasing enrollment, higher insurance costs, and State budget cuts in education).

As the preceding information shows, the School District depends upon its taxpayers. Although the Wellston City School District has tightened spending to better bring expenditures in line with revenues and carefully watched financial planning, this must continue if the School District hopes to remain on firm financial footing.

CONTRACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

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Wellston City School District, Ohio

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,212,241
Intergovernmental Receivable	319,903
Materials and Supplies Inventory	17,197
Property Taxes Receivable	3,176,561
Nondepreciable Capital Assets	313,189
Depreciable Capital Assets, Net	<u>34,934,975</u>
Total Assets	<u>46,974,066</u>
Liabilities	
Accounts Payable	284,496
Accrued Wages and Benefits Payable	1,104,551
Retainage Payable	27,769
Intergovernmental Payable	395,472
Accrued Interest Payable	12,951
Deferred Revenue	2,708,201
Vacation Benefits Payable	29,006
Long-Term Liabilities:	
Due Within One Year	170,293
Due In More Than One Year	<u>3,462,984</u>
Total Liabilities	<u>8,195,723</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	32,234,084
Restricted for:	
Capital Projects	504,200
Debt Service	760,892
Budget Stabilization	56,688
Bus Purchases	205,000
Other Purposes	1,195,066
Unrestricted	<u>3,822,413</u>
Total Net Assets	<u><u>\$38,778,343</u></u>

See accompanying notes to the basic financial statements

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$6,828,070	\$298,104	\$1,147,061	\$15,670	(\$5,367,235)
Special	2,696,180	0	1,126,832	0	(1,569,348)
Vocational	211,090	0	27,775	0	(183,315)
Adult/Continuing	446	0	498	0	52
Support Services:					
Pupils	669,664	0	148,543	0	(521,121)
Instructional Staff	976,600	0	215,881	20,916	(739,803)
Board of Education	115,264	0	5,903	0	(109,361)
Administration	1,296,362	0	100,965	0	(1,195,397)
Fiscal	385,119	0	60,398	383	(324,338)
Business	17,038	0	0	0	(17,038)
Operation and Maintenance of Plant	1,117,579	6,600	19,136	10,904	(1,080,939)
Pupil Transportation	993,845	0	56,798	11,815	(925,232)
Central	88,649	0	0	0	(88,649)
Operation of Non-Instructional Services:					
Food Service Operations	885,268	279,846	460,460	0	(144,962)
Community Services	34,557	0	47,857	0	13,300
Extracurricular Activities	311,867	116,010	21,354	0	(174,503)
Interest and Fiscal Charges	159,542	0	0	0	(159,542)
Total Governmental Activities	\$16,787,140	\$700,560	\$3,439,461	\$59,688	(12,587,431)
General Revenues					
Property Taxes Levied for:					
					2,309,450
					48,604
					369,520
					244,358
					9,095,532
					193,998
					101,097
					12,362,559
					(224,872)
					39,003,215
					\$38,778,343

See accompanying notes to the basic financial statements

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Wellston City School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,351,633	\$2,598,920	\$7,950,553
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	261,688	0	261,688
Interfund Receivable	210,032	0	210,032
Intergovernmental Receivable	0	319,903	319,903
Materials and Supplies Inventory	0	17,197	17,197
Property Taxes Receivable	2,654,292	522,269	3,176,561
Total Assets	<u>\$8,477,645</u>	<u>\$3,458,289</u>	<u>\$11,935,934</u>
Liabilities			
Accounts Payable	\$261,385	\$23,111	\$284,496
Accrued Wages and Benefits Payable	893,430	211,121	1,104,551
Retainage Payable	0	27,769	27,769
Interfund Payable	0	210,032	210,032
Deferred Revenue	2,621,788	636,260	3,258,048
Intergovernmental Payable	327,045	68,427	395,472
Total Liabilities	<u>4,103,648</u>	<u>1,176,720</u>	<u>5,280,368</u>
Fund Balances			
Reserved for Encumbrances	53,096	61,132	114,228
Reserved for Budget Stabilization	56,688	0	56,688
Reserved for Bus Purchases	205,000	0	205,000
Reserved for Property Taxes	32,504	8,342	40,846
Unreserved:			
Undesignated, Reported in:			
General Fund	4,026,709	0	4,026,709
Special Revenue Funds	0	1,058,371	1,058,371
Debt Service Fund	0	727,430	727,430
Capital Projects Funds	0	426,294	426,294
Total Fund Balances	<u>4,373,997</u>	<u>2,281,569</u>	<u>6,655,566</u>
Total Liabilities and Fund Balances	<u>\$8,477,645</u>	<u>\$3,458,289</u>	<u>\$11,935,934</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		\$6,655,566
 <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 are not reported in the funds		35,248,164
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Property Taxes	427,514	
Grants	<u>122,333</u>	549,847
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but are not recognized on the balance sheet until due.		(29,006)
Interest payable is accrued for outstanding long-term liabilities, while interest is not reported until due on the balance sheet.		(12,951)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Bonds	(2,995,000)	
Capital Leases Payable	(19,080)	
Sick Leave Benefits Payable	<u>(619,197)</u>	<u>(3,633,277)</u>
Net Assets of Governmental Activities		<u><u>\$38,778,343</u></u>

See accompanying notes to the basic financial statements

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$2,297,053	\$659,301	\$2,956,354
Intergovernmental	9,826,594	2,969,218	12,795,812
Investment Earnings	193,998	58,424	252,422
Tuition and Fees	279,372	24,971	304,343
Extracurricular Activities	0	116,010	116,010
Charges for Services	0	279,846	279,846
Donations	1,000	54,211	55,211
Rentals	6,600	0	6,600
Miscellaneous	50,809	50,288	101,097
Total Revenues	12,655,426	4,212,269	16,867,695
Expenditures			
Current:			
Instruction:			
Regular	4,515,584	2,152,798	6,668,382
Special	1,928,763	655,044	2,583,807
Vocational	215,619	0	215,619
Adult/Continuing	0	446	446
Support Services:			
Pupils	500,151	131,839	631,990
Instructional Staff	683,853	301,449	985,302
Board of Education	112,764	2,500	115,264
Administration	1,137,115	135,776	1,272,891
Fiscal	347,239	23,376	370,615
Business	17,038	0	17,038
Operation and Maintenance of Plant	854,069	238,184	1,092,253
Pupil Transportation	945,231	12,766	957,997
Central	86,350	0	86,350
Operation of Non-Instructional Services:			
Food Service Operations	0	768,068	768,068
Community Services	2,146	28,040	30,186
Extracurricular Activities	179,976	131,279	311,255
Capital Outlay	0	142,490	142,490
Debt Service:			
Principal Retirement	74,766	105,000	179,766
Interest and Fiscal Charges	1,973	157,719	159,692
Total Expenditures	11,602,637	4,986,774	16,589,411
Excess of Revenues Over (Under) Expenditures:	1,052,789	(774,505)	278,284
Other Financing Sources (Uses)			
Transfers In	0	20,000	20,000
Proceeds from Sale of Capital Assets	2,472	0	2,472
Transfers Out	(20,000)	0	(20,000)
Total Other Financing Sources (Uses)	(17,528)	20,000	2,472
Net Change in Fund Balances	1,035,261	(754,505)	280,756
Fund Balances Beginning of Year	3,338,736	3,036,074	6,374,810
Fund Balances End of Year	<u>\$4,373,997</u>	<u>\$2,281,569</u>	<u>\$6,655,566</u>

See accompanying notes to the basic financial statements

Wellston City School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$280,756

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

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

Capital Asset Additions	508,454	
Depreciation Expense	<u>(1,074,297)</u>	(565,843)

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

Proceeds from the Sale of Capital Assets	(2,472)	
Loss on Disposal of Capital Assets	<u>(21,638)</u>	(24,110)

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

Grants	(314,766)	
Tuition and Fees	(6,239)	
Delinquent Taxes	<u>15,578</u>	(305,427)

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

School Improvement Bonds	105,000	
Capital Lease	<u>74,766</u>	179,766

In the statement of activities interest is accrued on outstanding bonds and notes, whereas in governmental funds, interest is expended when due. 150

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

Sick Leave Benefits Payable	124,419	
Vacation Benefits Payable	<u>85,417</u>	<u>209,836</u>

Change in Net Assets of Governmental Activities (\$224,872)

See accompanying notes to the basic financial statements

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$2,251,897	\$2,348,391	\$2,348,391	\$0
Intergovernmental	9,702,042	9,855,178	9,855,178	0
Investment Earnings	88,921	174,904	193,998	19,094
Tuition and Fees	255,289	281,970	281,970	0
Rentals	3,100	6,600	6,600	0
Donations	0	1,000	1,000	0
Miscellaneous	28,206	136,651	136,651	0
Total Revenues	12,329,455	12,804,694	12,823,788	19,094
Expenditures				
Current:				
Instruction:				
Regular	6,055,678	4,558,595	4,558,595	0
Special	1,844,204	1,943,385	1,943,385	0
Vocational	259,712	225,345	225,345	0
Support Services:				
Pupils	245,956	499,452	499,452	0
Instructional Staff	779,057	708,696	708,696	0
Board of Education	306,226	121,166	121,166	0
Administration	1,134,723	1,111,057	1,111,057	0
Fiscal	371,074	343,939	343,939	0
Business	82,959	22,033	22,033	0
Operation and Maintenance of Plant	925,846	857,725	857,725	0
Pupil Transportation	1,393,651	924,680	924,680	0
Central	76,545	86,145	86,145	0
Operation of Non-Instructional Services:				
Food Service Operations	27,656	2,146	2,146	0
Extracurricular Activities	196,252	171,340	171,340	0
Debt Service:				
Principal Retirement	74,766	74,766	74,766	0
Interest and Fiscal Charges	1,973	1,973	1,973	0
Total Expenditures	13,776,278	11,652,443	11,652,443	0
Excess of Revenues Over (Under) Expenditures	(1,446,823)	1,152,251	1,171,345	19,094
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	0	2,472	2,472	0
Advances In	375,762	256,804	256,804	0
Advances Out	(195,630)	(95,700)	(95,700)	0
Transfers Out	(1,722)	(20,000)	(20,000)	0
Total Other Financing Sources (Uses)	178,410	143,576	143,576	0
Net Change in Fund Balance	(1,268,413)	1,295,827	1,314,921	19,094
Fund Balance Beginning of Year	3,950,617	3,950,617	3,950,617	0
Prior Year Encumbrances Appropriated	82,159	82,159	82,159	0
Fund Balance End of Year	\$2,764,363	\$5,328,603	\$5,347,697	\$19,094

See accompanying notes to the basic financial statements

Wellson City School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$50,592</u></u>
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Liabilities

Due to Students	<u><u>\$50,592</u></u>
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See accompanying notes to the basic financial statements

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Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by 75 classified employees, 130 certified teaching personnel, and 6 administrators, who provide services to 1,619 students and other community members.

Reporting Entity

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

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

The School District participates in the Southeastern Ohio Voluntary Education Consortium, the Gallia-Jackson-Vinton Joint Vocational School District, the Coalition of Rural and Appalachian Schools, and the South Eastern Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program which is defined as an insurance purchasing pool. These organizations are presented in Notes 16 and 17.

The following activity is included within the reporting entity:

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

Note 2 - Summary of Significant Accounting Policies

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

Wellston City School District, Ohio

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 the fiduciary fund. The statements usually distinguish between those activities that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

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

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

B. Fund Accounting

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

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 equals liabilities) and does not involve the measurement of results of operations. The School District's only fiduciary fund is an agency fund, which accounts for student activities.

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio).

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$193,998, which includes \$58,424 assigned from other School District funds.

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

F. Restricted Assets

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

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

G. Inventory

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

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

I. Interfund Activity

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

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

J. Compensated Absences

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

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

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences 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 governmental fund financial statements when due.

L. Fund Balance Reserves

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

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and on interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated on the statement of net assets.

N. Estimates

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

O. 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.

The government-wide statement of net assets reports \$2,721,846 of restricted net assets, none of which is restricted by enabling legislation.

Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted for specific purposes. The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

P. Extraordinary and Special Items

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

Q. Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances at year end.

Note 3 - Changes in Accounting Principles

For the fiscal 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" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements as reported at June 30, 2006.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements as reported at June 30, 2006.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 4 - Fund Deficits

The following funds had deficit fund balances as of June 30, 2006:

	<u>Deficit</u>
Special Revenue Funds:	
Food Service	\$72,965
Public Preschool	6,092
Title VI-B Idea	20,933
Title I	1,465
Handicapped Preschool	524
Title II-A	7,106

These deficits resulted from the recognition of deferred revenue on grants and payables in accordance with generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance

GAAP Basis	\$1,035,261
Revenue Accruals	168,362
Expenditure Accruals	70,231
Prepaid Items at Beginning of Year	145,587
Advances	161,104
Encumbrances	<u>(265,624)</u>
Budget Basis	<u><u>\$1,314,921</u></u>

Wellston City School District, Ohio

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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,318,659 of the School District's bank balance of \$2,618,659 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2006, the School District's investment in STAROhio had an average maturity of 34.77 days and a fair value of \$5,830,862.

Interest Rate Risk The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Rate Risk STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard setting service. The School District has no investment policy that would further limit its investment choices.

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 thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 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 thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Wellston City School District, Ohio

*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 \$32,504 in the General Fund, \$4,047 in the Bond Retirement Debt Service Fund, \$3,681 in the Permanent Improvements Capital Project Fund, and \$614 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2005, was \$83,842 in the General Fund, \$10,441 in the Bond Retirement Debt Service Fund, \$9,492 in the Permanent Improvements Capital Project Fund and \$1,582 in the Classroom Facilities Maintenance Special Revenue Fund.

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

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

	2005 Second- Half Collections		2005 First- Half Collections	
Real Property	\$78,983,570	73.61%	\$98,535,050	76.25%
Public Utility Tangible Personal Property	21,071,776	19.64%	23,489,243	18.18%
Tangible Personal Property	7,238,190	6.75%	7,202,530	5.57%
Total	\$107,293,536	100.00%	\$129,226,823	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$27.30		\$27.30	

Note 8 - Receivables

Receivables at June 30, 2006, consisted of property taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year, with the exception of delinquent property taxes.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Public Preschool	\$42,500
IDEA-B	85,149
Title I	150,986
Title V	856
Early Childhood Special Education	5,360
Improving Teacher Quality	30,272
Title II-D	4,780
Total	\$319,903

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, the School District contracted with the Indiana Insurance Company for property, boiler, general liability, fleet, and professional liability insurance. The types and amounts of coverage provided are as follows:

Property	Deductible	Limits of Coverage
Building and Contents - Replacement Cost	\$1,000	\$49,969,281
General Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	2,000,000
Products - Completed Operations Aggregate Limit	0	2,000,000
Personal and Advertising Injury Limit - Each Offense	0	1,000,000
Errors and Omissions:		
Each Occurrence	2,500	1,000,000
Aggregate Limit	2,500	1,000,000
Employers' Liability:		
Each Occurrence	0	1,000,000
Disease - Each Employee	0	1,000,000
Disease - Policy Limit	0	1,000,000
Employee Benefits Liability:		
Each Occurrence	0	1,000,000
Aggregate Limit	0	3,000,000
Hazardous Substances	0	25,000
CFC Refrigeration	0	100,000
Spoilage	0	25,000
Vehicles:		
Bodily Injury:		
Per Person	0	1,000,000
Per Accident	0	1,000,000
Property Damage	0	1,000,000
Uninsured Motorist:		
Per Person	0	1,000,000
Per Accident	0	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been so significant reduction in insurance coverage from fiscal year 2005.

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 10 - Capital Assets

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

	<u>Balance at 6/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/06</u>
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$313,189	\$0	\$0	\$313,189
Depreciable Capital Assets:				
Buildings and Improvements	34,346,576	142,490	0	34,489,066
Furniture, Fixtures, and Equipment	3,276,407	191,181	(58,635)	3,408,953
Vehicles	1,335,880	141,018	(147,739)	1,329,159
Textbooks	1,284,221	33,765	0	1,317,986
Total Depreciable Capital Assets	<u>40,243,084</u>	<u>508,454</u>	<u>(206,374)</u>	<u>40,545,164</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,664,490)	(633,185)	0	(3,297,675)
Furniture, Fixtures, and Equipment	(1,055,107)	(377,968)	44,665	(1,388,410)
Vehicles	(760,357)	(42,349)	137,599	(665,107)
Textbooks	(238,202)	(20,795)	0	(258,997)
Total Accumulated Depreciation	<u>(4,718,156)</u>	<u>(1,074,297) *</u>	<u>182,264</u>	<u>(5,610,189)</u>
Total Capital Assets being Depreciated, Net	<u>35,524,928</u>	<u>(565,843)</u>	<u>(24,110)</u>	<u>34,934,975</u>
Capital Assets, Net	<u>\$35,838,117</u>	<u>(\$565,843)</u>	<u>(\$24,110)</u>	<u>\$35,248,164</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$335,613
Special	139,491
Vocational	13,113
Support Services:	
Pupils	39,244
Instructional Staff	91,505
Administration	78,487
Fiscal	13,207
Operation and Maintenance of Plant	57,471
Pupil Transportation	178,363
Central	4,371
Food Service Operations	117,189
Community Services	4,371
Extracurricular Activities	1,872
Total Depreciation Expense	<u>\$1,074,297</u>

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$189,813, \$167,881, and \$153,879, respectively; 51.6 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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, 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 of 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$728,966, \$873,409, and \$795,675, respectively; 92.07 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,174 made by the School District and \$11,366 made by the plan members.

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$56,074 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$61,653.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Expenses for health care at June 30, 2005, (the latest information available), were \$218.8 and the target level was \$238.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

Note 13 - Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit to sick leave accrual. Upon retirement, payment is made to certificated employees at 35 percent up to a maximum of 56 days, and at 30 percent for classified employees up to a maximum of 60 days.

B. Insurance Benefits

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

Health insurance is provided through United Healthcare. Monthly premiums for this coverage are \$1,287.06 for family coverage and \$429.02 for single coverage. Dental insurance is provided by CoreSource and vision insurance is provided by Guardian Insurance. Monthly premiums for this coverage are \$45.97 for family coverage and \$18.46 for single coverage. The School District pays 99% of both family and single coverage premiums.

Note 14 - Capitalized Leases

The School District had entered into a lease agreement for fitness equipment. This lease obligation 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 payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2006 totaled \$74,766 in the governmental funds. The agreements provide for minimum annual lease payments as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$19,185
Less: Amount Representing Interest	<u>(105)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$19,080</u></u>

The equipment has been capitalized in the amount of \$218,901, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2006, was \$60,198, leaving a remaining book value of \$158,703.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 15 - Long Term Obligations

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

	Outstanding 6/30/05	Additions	Deductions	Outstanding 6/30/06	Due Within One Year
Governmental Activities:					
1999 3.30% - 5.85% School Construction General					
Obligation Bonds	\$3,100,000	\$0	\$105,000	\$2,995,000	\$115,000
Capital Leases	93,846	0	74,766	19,080	19,080
Sick Leave Benefits	743,616	25,233	149,652	619,197	36,213
Total Governmental Activities Long-Term Liabilities	\$3,937,462	\$25,233	\$329,418	\$3,633,277	\$170,293

Classroom Facilities General Obligation Bonds The School District issued general obligation bonds for \$3,656,000 as a result of the School District being approved for a \$31,072,412 school facilities loan through the Ohio School Facilities Commission for additions to the elementary school, and the construction of a new middle school and high school. The School District issued the bonds on June 9, 1999, to provide the required local match for the school facilities loan. As a requirement of the loan, the School District was required to pass a 5.8 mill levy. 5.3 mills will be used to repay the debt issue which provided the matching funds required of the School District. The remaining .5 mills is used for facilities maintenance.

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$115,000	\$152,916	\$267,916
2008	120,000	147,745	267,745
2009	125,000	142,263	267,263
2010	135,000	136,413	271,413
2011	145,000	129,968	274,968
2012-2016	875,000	512,903	1,387,903
2017-2021	1,195,000	228,517	1,423,517
2022	285,000	7,125	292,125
	\$2,995,000	\$1,457,850	\$4,452,850

Capital leases will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Food Service, Public Preschool, Disadvantaged Pupil Impact Aid, Title VI-B Idea, and the Handicapped Preschool Special Revenue Funds.

The School District's overall legal debt margin was \$9,369,849, with an unvoted debt margin of \$129,227 at June 30, 2006.

Wellston City School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 16 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Consortium

The Southeastern Ohio Voluntary Education Consortium (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 34 participants consisting of 30 school districts and 4 educational service centers. SEOVEC is governed by a board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. The School District paid SEOVEC \$28,795 for services provided during the fiscal year. To obtain financial information write to the Southeastern Ohio Voluntary Education Consortium, at 221 North Columbus Road, Athens, Ohio 45701.

B. Gallia-Jackson-Vinton Joint Vocational School District

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

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (Coalition) consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition. The School District paid the Coalition \$300 for services provided during the year.

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

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

The SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Wellston City School District's superintendent is a member of the SEOSERRC Board. The School District paid the SEOSERRC \$582 for services provided during the year. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 18 - Interfund Activity and Balances

A. Transfers

During fiscal year 2006, the General Fund transferred \$20,000 to other non-major governmental funds, in order to move unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

B. Interfund Balances

Interfund receivables and payables at June 30, 2006, consist of the following individual balances, representing monies advanced to funds to be repaid when grant funds or other program revenues are received:

	Interfund Receivables	Interfund Payables
General Fund	<u>\$210,032</u>	<u>\$0</u>
Other Governmental Funds:		
Bond Retirement	0	6,395
Food Service	0	58,700
Uniform School Supply	0	2,877
Athletics	0	15,120
Public Preschool	0	15,000
Title VI-B Idea	0	61,440
Title I	0	30,000
Title V	0	500
Handicapped Preschools	0	2,500
Title VI-R	0	15,000
Miscellaneous Federal Grants	<u>0</u>	<u>2,500</u>
Total Other Governmental Funds	<u>0</u>	<u>210,032</u>
Total All Funds	<u><u>\$210,032</u></u>	<u><u>\$210,032</u></u>

Wellston City School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 19 - Contingencies

A. Grants

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

B. Litigation

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

Note 20 - Set-Aside Calculations

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of as of June 30, 2005	(\$482,610)	(\$3,100,000)	\$56,688
Current Year Set-Aside Requirement	254,949	254,949	0
Current Year Offsets	0	(49,338)	0
Qualifying Disbursements	<u>(33,765)</u>	<u>(474,689)</u>	<u>0</u>
Totals	<u>(\$261,426)</u>	<u>(\$3,369,078)</u>	<u>\$56,688</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$261,426)</u>	<u>(\$2,995,000)</u>	<u>\$56,688</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>	<u>\$56,688</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbook and capital improvements set-aside amounts below zero. The extra amount in the textbooks set-aside and a portion of the capital improvement set-aside may be used to reduce the set-aside requirements for future years.

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Food Donation	10.550	N/A	\$	\$ 53,645	\$	\$ 53,645
Nutrition Cluster:						
School Breakfast Program	10.553	05-PU-05	15,860		15,860	
		05-PU-06	72,639		72,639	
Total School Breakfast Program			88,499	0	88,499	0
National School Lunch Program	10.555	LL-P1-05	1,059		1,059	
		LL-P1-06	5,798		5,798	
		LL-P4-05	45,558		45,558	
		LL-P4-06	213,501		213,502	
		VG-S1-06	15,339		15,339	
Total National School Lunch Program			281,255	0	281,256	0
Total Nutrition Cluster			369,754	0	369,755	0
Total United States Department of Agriculture			369,754	53,645	369,755	53,645
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-05	100,476		134,552	
		C1-S1-06	392,960		414,605	
Total Title I Grants to Local Educational Agencies			493,436	0	549,157	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-05	53,549		100,646	
		6B-SF-06	318,529		332,033	
Total Special Education - Grants to States			372,078	0	432,679	0
Special Education Preschool Grants	84.173	PG-S1-05	5,160		4,350	
		PG-S1-06	13,708		14,813	
Total Special Education Preschool Grants			13,708	0	19,163	0
Total Special Education Cluster			385,786	0	451,842	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-06	13,786		13,786	
Twenty-First Century Community Learning Centers	84.287	T1-A2-06	5,000		629	
State Grants for Innovative Education Programs	84.298	C2-S1-05	(10)		361	
		C2-S1-06	4,844		4,174	
Total State Grants for Innovative Education Programs			4,834	0	4,535	0
Education Technology State Grants	84.318	TJ-S1-06	4,885		6,661	
Comprehensive School Reform Demonstration	84.332	RF-S3-03	0		7,584	
		RF-S3-05	37,776		21,079	
Total Comprehensive School Reform Demonstration			37,776	0	28,663	0
Improving Teacher Quality State Grants	84.367	TR-S1-05	29,883		14,317	
		TR-S1-06	115,377		126,239	
Total Improving Teacher Quality State Grants			145,260	0	140,556	0
Total United States Department of Education			1,090,763	0	1,195,829	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	93.767	N/A	1,490		1,490	
Medical Assistance Program	93.778	N/A	69,444		69,444	
Total United States Department of Health and Human Services			70,934	0	70,934	0
Total Federal Awards Receipts and Expenditures			\$ 1,531,451	\$ 53,645	\$ 1,636,518	\$ 53,645

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

**WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

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

NOTE C – CHILD NUTRITION CLUSTER

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wellston City School District, Jackson County, Ohio (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 March 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated March 26, 2007, we reported an other matter related to noncompliance we deemed immaterial.

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

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

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

Mary Taylor, CPA
Auditor of State

March 26, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Wellston City School District, Jackson County, Ohio (School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006. In a separate letter to the School District's management dated March 26, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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



Mary Taylor, CPA
Auditor of State

March 26, 2007

**WELLSTON CITY SCHOOLS
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .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)(ii)	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education – Grants to States CFDA #84.027 Special Education – Preschool Grants CFDA #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.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

WELLSTON CITY SCHOOL DISTRICT
JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007