

Gallipolis City School District

Gallia County

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Board of Education  
Gallipolis City School District  
61 State St.  
Gallipolis, OH 45631

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

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 14, 2005

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# BALESTRA, HARR & SCHERER, CPAs, Inc.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Members of the Board  
Gallipolis City School District  
61 State Street  
Gallipolis, OH 45631

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the School District), Gallia County, as of and for the year ended June 30, 2004, 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 an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Balestra, Harr & Scherer, CPAs, Inc.**

Balestra, Harr & Scherer, CPAs, Inc.  
December 15, 2004

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The discussion and analysis of the Gallipolis City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the 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 District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$922,948 which represents a 16.39% decrease from 2003.
- General revenues accounted for \$14,285,619 in revenue or 78.81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,840,148 or 21.19% of total revenues of \$18,125,767.
- The District had \$19,048,715 in expenses related to governmental activities; only \$3,840,148 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,285,619 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$14,114,297 in revenues and other financing sources and \$15,191,138 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance decreased \$1,082,037 from \$1,575,792 to \$493,755.

**Using the Basic Financial Statements**

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.



**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 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, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-40 of this report.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2004 and 2003.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current and other assets	\$ 8,766,208	\$ 10,046,150
Capital assets	<u>4,156,639</u>	<u>3,971,949</u>
Total assets	12,922,847	14,018,099
<b>Liabilities</b>		
Current liabilities	6,671,956	6,841,138
Long-term liabilities	<u>1,542,580</u>	<u>1,545,702</u>
Total liabilities	<u>8,214,536</u>	<u>8,386,840</u>
<b>Net Assets</b>		
Invested in capital assets	4,156,639	3,803,949
Restricted	1,240,759	1,354,470
Unrestricted	<u>(689,087)</u>	<u>472,840</u>
Total net assets	<u>\$ 4,708,311</u>	<u>\$ 5,631,259</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$4,708,311. At year-end, restricted net assets were \$1,240,759.

At year-end, capital assets represented 32.17% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Total capital assets at June 30, 2004 were \$4,156,639. These capital assets are used to provide services to the students and are not available for future spending.

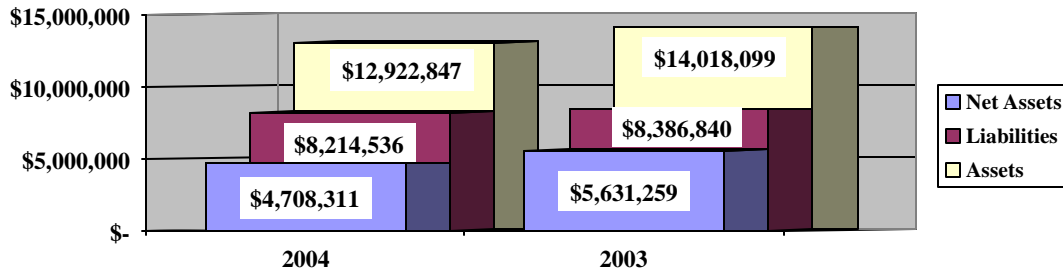
A portion of the District's net assets, \$1,240,759, represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets of \$689,087 may be used to meet the District's ongoing obligations to the students and creditors.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The table below illustrates the District's total assets, liabilities and net assets at June 30, 2004 and 2003.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2004 and 2003.

**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 653,365	\$ 601,157
Operating grants and contributions	3,133,708	2,900,094
Capital grants and contributions	53,075	12,110
General revenues:		
Property taxes	4,197,186	4,759,016
Grants and entitlements	9,869,339	9,976,533
Investment earnings	137,135	150,712
Other	81,959	181,379
Total revenues	18,125,767	18,581,001

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 8,118,596	\$ 7,861,766
Special	2,883,077	2,289,380
Vocational	345,009	337,696
Support services:		
Pupil	887,658	815,472
Instructional staff	1,085,155	966,377
Board of education	50,829	47,190
Administration	1,510,856	1,374,357
Fiscal	328,107	378,593
Operations and maintenance	1,366,475	1,401,822
Pupil transportation	1,285,010	1,164,358
Central	86,434	70,209
Food service operations	596,145	573,644
Extracurricular activities	497,886	419,665
Interest and fiscal charges	7,478	10,523
Total expenses	19,048,715	17,711,052
Change in net assets	<u>\$ (922,948)</u>	<u>\$ 869,949</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$922,948. Total governmental expenses of \$19,048,715 were offset by program revenues of \$840,148 and general revenues of \$4,285,619. Program revenues supported 20.16% of the total governmental expenses.

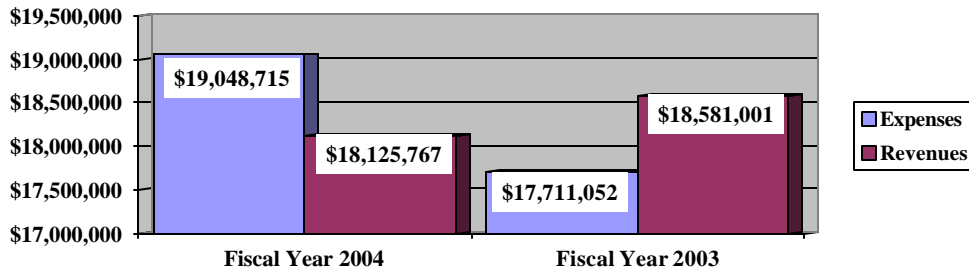
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 77.61% of total governmental revenue. Real estate property is reappraised every six years.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

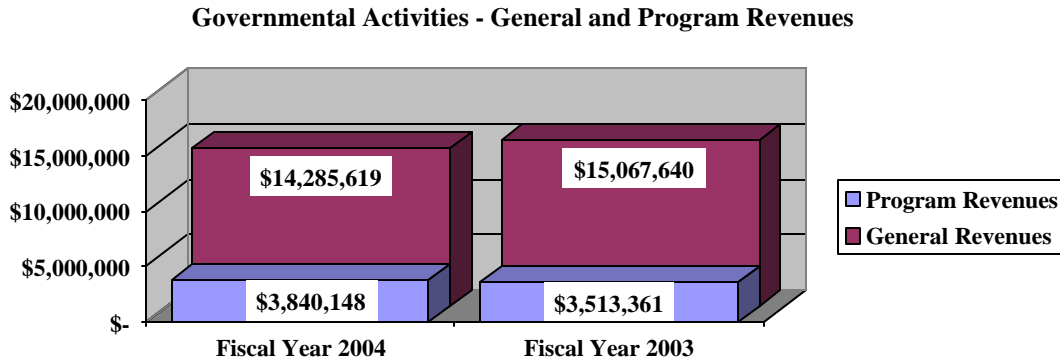
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
<b>Program expenses</b>				
Instruction:				
Regular	\$ 8,118,596	\$ 6,761,810	\$ 7,861,766	\$ 6,479,320
Special	2,883,077	1,945,711	2,289,380	1,738,836
Vocational	345,009	345,009	337,696	337,696
Support services:				
Pupil	887,658	868,063	815,472	791,603
Instructional staff	1,085,155	567,679	966,377	568,485
Board of education	50,829	50,829	47,190	47,190
Administration	1,510,856	1,429,154	1,374,357	1,288,569
Fiscal	328,107	328,107	378,593	378,593
Operations and maintenance	1,366,475	1,301,442	1,401,822	1,078,452
Pupil transportation	1,285,010	1,222,192	1,164,358	1,164,358
Central	86,434	77,549	70,209	60,951
Food service operations	596,145	(2,684)	573,644	12,910
Extracurricular activities	497,886	306,228	419,665	240,205
Interest and fiscal charges	7,478	7,478	10,523	10,523
<b>Total expenses</b>	<b>\$ 19,048,715</b>	<b>\$ 15,208,567</b>	<b>\$ 17,711,052</b>	<b>\$ 14,197,691</b>

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The dependence upon tax and other general revenues for governmental activities is apparent, 79.78% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.84%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,695,441, which is lower than last year's total of \$2,659,409. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 493,755	\$ 1,575,792	\$ (1,082,037)
Other Governmental	<u>1,201,686</u>	<u>1,083,617</u>	<u>118,069</u>
Total	<u>\$ 1,695,441</u>	<u>\$ 2,659,409</u>	<u>\$ (963,968)</u>

**General Fund**

The District's general fund balance decreased \$1,082,037. The decrease in fund balance can be attributed to decreasing revenues and increasing expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,940,559	\$ 4,516,465	(12.75) %
Earnings on investments	132,667	147,065	(9.79) %
Intergovernmental	9,869,339	9,979,013	(1.10) %
Other revenues	<u>146,480</u>	<u>220,197</u>	(33.48) %
Total	<u>\$ 14,089,045</u>	<u>\$ 14,862,740</u>	(5.21) %
<b><u>Expenditures</u></b>			
Instruction	\$ 8,899,002	\$ 8,293,699	7.30 %
Support services	5,736,595	5,519,916	3.93 %
Extracurricular activities	289,228	302,270	(4.31) %
Facilities acquisition and construction	<u>40,454</u>	<u>15,895</u>	154.51 %
Total	<u>\$ 14,965,279</u>	<u>\$ 14,131,780</u>	5.90 %

***General Fund Budgeting Highlights***

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

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$14,463,114, which is lower than the original budgeted revenues and other financing sources estimate of \$15,538,085. Actual revenues and other financing sources for fiscal 2004 was \$14,469,884. This represents a \$6,770 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,609,929 were increased to \$15,993,138 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$15,792,908, which was \$200,230 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2004, the District had \$4,156,639 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Land	\$ 986,120	\$ 986,120
Land improvements	633,336	689,516
Building and improvements	1,019,064	811,212
Furniture and equipment	725,724	753,802
Vehicles	743,011	731,299
Construction in progress	<u>49,384</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 4,156,639</u></b>	<b><u>\$ 3,971,949</u></b>

Total additions to capital assets for 2004 were \$648,828. The overall increase in capital assets of \$184,690 is primarily due to capital outlays exceeding disposals of \$3,196 (net of accumulated depreciation) and depreciation expense of \$460,942 in fiscal 2004.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2004, the District had no outstanding debt. The following table summarizes the outstanding notes.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
Energy conservation notes	\$ -	\$ 168,000
<b>Total</b>	<b><u>\$ -</u></b>	<b><u>\$ 168,000</u></b>

At June 30, 2004, the District's overall legal debt margin was \$19,337,040 with an unvoted debt margin of \$214,856 and an energy conservation debt margin of \$1,933,704.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District has continued to maintain the highest standards of service to our students, parents, and community. The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed from the community's citizens. The District has communicated to its community that they rely upon their support for part of its operations, and will continue to work diligently to plan expenses, staying carefully within the five-year financial plan. State law retards the growth of income generated by local levies rendering revenue relatively constant. The last new levy approved by the taxpayers was November 1990. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance.



**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". The State has not yet developed a school funding plan that has been deemed acceptable by the court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget.

A challenge facing the District is the need to update its facilities to enhance learning space design for students. At this time, the Board is working with the Ohio School Facilities Commission (OSFC) and has applied to the Exceptional Needs Program for the current high school facility. The current high school site includes two main structures that house grades 7-12. The main structure for grades 7-8 is 88 years old and the "newer" building for grades 9-12 was built in 1957. OSFC funding would comprise of approximately 31% of the approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Ellen Marple, Treasurer, Gallipolis City School District, 61 State Street, Gallipolis, Ohio 45631.

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**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

		<b>Governmental Activities</b>
<hr/>		
<b>Assets:</b>		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$	3,600,912
Receivables:		
Taxes		4,594,329
Accounts		13,723
Intergovernmental		436,328
Prepayments		33,107
Materials and supplies inventory		87,809
Total current assets		<hr/> 8,766,208 <hr/>
 <i>Noncurrent assets:</i>		
Capital assets:		
Land and construction in progress		1,035,504
Depreciable capital assets, net		3,121,135
Total noncurrent assets		<hr/> 4,156,639 <hr/>
Total assets		<hr/> <hr/> 12,922,847 <hr/> <hr/>
 <b>Liabilities:</b>		
<i>Current liabilities:</i>		
Accounts payable		343,893
Accrued wages and benefits		1,660,226
Pension obligation payable		372,929
Intergovernmental payable		40,599
Deferred revenue		4,254,309
Total Current Liabilities		<hr/> 6,671,956 <hr/>
 <i>Noncurrent liabilities:</i>		
Current portion of long-term obligation		164,775
Noncurrent portion of long-term obligation		1,377,805
Total liabilities		<hr/> 8,214,536 <hr/>
 <b>Net Assets:</b>		
Invested in capital assets		4,156,639
Restricted for:		
Capital projects		652,085
Other purposes		588,674
Unrestricted		(689,087)
Total net assets	\$	<hr/> 4,708,311 <hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular	\$ 8,118,596	\$ 37,041	\$ 1,266,670	\$ 53,075	\$ (6,761,810)
Special	2,883,077	695	936,671	-	(1,945,711)
Vocational	345,009	-	-	-	(345,009)
Support services:					
Pupil	887,658	-	19,595	-	(868,063)
Instructional staff	1,085,155	66,166	451,310	-	(567,679)
Board of education	50,829	-	-	-	(50,829)
Administration	1,510,856	1,148	80,554	-	(1,429,154)
Fiscal	328,107	-	-	-	(328,107)
Operations and maintenance	1,366,475	30,009	35,024	-	(1,301,442)
Pupil transportation	1,285,010	62,818	-	-	(1,222,192)
Central	86,434	-	8,885	-	(77,549)
Food service operations	596,145	263,830	334,999	-	2,684
Extracurricular activities	497,886	191,658	-	-	(306,228)
Interest and fiscal charges	7,478	-	-	-	(7,478)
Total governmental activities	<u>\$ 19,048,715</u>	<u>\$ 653,365</u>	<u>\$ 3,133,708</u>	<u>\$ 53,075</u>	<u>(15,208,567)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
					4,024,797
					172,389
					9,869,339
					137,135
					81,959
					14,285,619
					(922,948)
					5,631,259
					\$ 4,708,311

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 1,632,316	\$ 1,399,973	\$ 3,032,289
Receivables:			
Taxes	4,594,329	-	4,594,329
Accounts	13,723	-	13,723
Intergovernmental	-	436,328	436,328
Interfund loans	60,357	-	60,357
Prepayments	31,554	1,553	33,107
Materials and supplies inventory	70,217	17,592	87,809
Restricted assets:			
Equity in pooled cash and cash equivalents	568,623	-	568,623
 Total assets	 \$ 6,971,119	 \$ 1,855,446	 \$ 8,826,565
<b>Liabilities:</b>			
Accounts payable	\$ 188,426	\$ 155,467	\$ 343,893
Accrued wages and benefits	1,386,156	274,070	1,660,226
Matured compensated absences payable	39,402	-	39,402
Pension obligation payable	237,945	47,104	285,049
Intergovernmental payable	32,797	7,802	40,599
Interfund loans payable	-	60,357	60,357
Deferred revenue	4,592,638	108,960	4,701,598
 Total liabilities	 6,477,364	 653,760	 7,131,124
<b>Fund Balances:</b>			
Reserved for encumbrances	421,484	95,589	517,073
Reserved for materials and supplies inventory	70,217	17,592	87,809
Reserved for prepayments	31,554	1,553	33,107
Reserved for property tax unavailable for appropriation	1,691	-	1,691
Reserved for BWC refunds	74,921	-	74,921
Reserved for instructional materials	132,798	-	132,798
Reserved for capital acquisition	360,904	-	360,904
Unreserved:			
Designation for budget stabilization	14,171	-	14,171
Undesignated, (deficit) reported in:			
General fund	(613,985)	-	(613,985)
Special revenue funds	-	434,867	434,867
Capital projects funds	-	652,085	652,085
 Total fund balances	 493,755	 1,201,686	 1,695,441
 Total liabilities and fund balances	 \$ 6,971,119	 \$ 1,855,446	 \$ 8,826,565

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$ 1,695,441
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		4,156,639
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 338,329	
Intergovernmental revenue	108,960	
Total		447,289
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
Compensated absences	1,503,178	
Pension obligation payable	87,880	
Total		(1,591,058)
<b>Net assets of governmental activities</b>		<b>\$ 4,708,311</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes	\$ 3,940,559	\$ 175,929	\$ 4,116,488
Transportation fees	62,818	-	62,818
Charges for services	-	330,623	330,623
Earnings on investments	132,667	4,468	137,135
Extracurricular	-	192,687	192,687
Classroom materials and fees	-	37,312	37,312
Other local revenues	83,662	28,222	111,884
Intergovernmental - state	9,824,262	1,334,323	11,158,585
Intergovernmental - federal	45,077	2,097,359	2,142,436
Total revenue	<u>14,089,045</u>	<u>4,200,923</u>	<u>18,289,968</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	6,727,228	1,297,329	8,024,557
Special	1,847,455	1,028,440	2,875,895
Vocational	324,319	-	324,319
Support services:			
Pupil	841,878	22,807	864,685
Instructional staff	441,311	590,801	1,032,112
Board of education	50,829	-	50,829
Administration	1,403,183	123,922	1,527,105
Fiscal	319,991	-	319,991
Operations and maintenance	1,359,958	35,977	1,395,935
Pupil transportation	1,242,206	9,359	1,251,565
Central	77,239	9,179	86,418
Food service operations	-	584,179	584,179
Extracurricular activities	289,228	186,971	476,199
Facilities acquisition and construction	40,454	237,600	278,054
Debt service:			
Principal retirement	-	168,000	168,000
Interest and fiscal charges	-	8,964	8,964
Total expenditures	<u>14,965,279</u>	<u>4,303,528</u>	<u>19,268,807</u>
Excess of revenues under expenditures	<u>(876,234)</u>	<u>(102,605)</u>	<u>(978,839)</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	225,859	225,859
Transfers (out)	(225,859)	-	(225,859)
Proceeds from sale of capital assets	25,252	-	25,252
Total other financing sources (uses)	<u>(200,607)</u>	<u>225,859</u>	<u>25,252</u>
Net change in fund balances	(1,076,841)	123,254	(953,587)
<b>Fund balances at beginning of year</b>	1,575,792	1,083,617	2,659,409
<b>Decrease in reserve for inventory</b>	(5,196)	(5,185)	(10,381)
<b>Fund balances at end of year</b>	<u>\$ 493,755</u>	<u>\$ 1,201,686</u>	<u>\$ 1,695,441</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	\$	(953,587)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$648,828) exceeds depreciation expense (\$460,942) in the current period.		187,886
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(3,196)
Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed.		(10,381)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(164,201)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		168,000
Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,486
Some expenses reported on the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(148,955)
		<hr style="border-top: 1px solid black;"/>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(922,948)</b>
		<hr style="border-top: 3px double black;"/>



**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes	\$ 4,582,282	\$ 4,265,266	\$ 4,267,262	\$ 1,996
Transportation fees	65,990	61,425	61,454	29
Earnings on investments	142,461	132,605	132,667	62
Other local revenues	79,397	73,904	73,939	35
Intergovernmental - state	10,549,513	9,819,667	9,824,263	4,596
Intergovernmental - federal	48,405	45,056	45,077	21
Total revenue	<u>15,468,048</u>	<u>14,397,923</u>	<u>14,404,662</u>	<u>6,739</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,488,284	7,067,117	6,978,638	88,479
Special	1,755,892	1,912,539	1,888,594	23,945
Vocational	311,746	339,557	335,306	4,251
Support services:				
Pupil	794,046	864,885	854,057	10,828
Instructional staff	437,528	476,561	470,595	5,966
Board of education	47,959	52,238	51,584	654
Administration	1,349,218	1,469,585	1,451,186	18,399
Fiscal	327,833	357,080	352,609	4,471
Operations and maintenance	1,318,787	1,436,439	1,418,455	17,984
Pupil transportation	1,193,649	1,300,137	1,283,860	16,277
Central	-	79,824	78,825	999
Extracurricular activities	277,110	301,832	298,053	3,779
Facilities acquisition and construction	41,216	44,893	44,331	562
Total expenditures	<u>14,343,268</u>	<u>15,702,687</u>	<u>15,506,093</u>	<u>196,594</u>
Excess of revenues over (under) expenditures	<u>1,124,780</u>	<u>(1,304,764)</u>	<u>(1,101,431)</u>	<u>203,333</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	35,814	33,336	33,352	16
Refund of prior year receipt	(75)	(82)	(81)	1
Transfers in	557	518	518	-
Transfers (out)	(210,470)	(229,247)	(226,377)	2,870
Advances in	6,550	6,097	6,100	3
Advances (out)	(56,116)	(61,122)	(60,357)	765
Proceeds from sale of capital assets	27,116	25,240	25,252	12
Total other financing sources (uses)	<u>(196,624)</u>	<u>(225,260)</u>	<u>(221,593)</u>	<u>3,667</u>
Net change in fund balance	928,156	(1,530,024)	(1,323,024)	207,000
<b>Fund balance at beginning of year</b>	2,252,226	2,252,226	2,252,226	-
<b>Prior year encumbrances appropriated</b>	683,219	683,219	683,219	-
<b>Fund balance at end of year</b>	<u>\$ 3,863,601</u>	<u>\$ 1,405,421</u>	<u>\$ 1,612,421</u>	<u>\$ 207,000</u>

GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 59,656
Total assets	<u>\$ 59,656</u>
<b>Liabilities:</b>	
Accounts payable	\$ 743
Due to students	58,913
Total liabilities	<u>\$ 59,656</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Gallipolis City School District (the "District") is located on the Ohio River in east-central Gallia County. The District includes all of the City of Gallipolis and portions of surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five-members elected at large for staggered four-year terms.

The District ranks as the 232<sup>nd</sup> largest by enrollment among the 613 public districts in the state. It currently operates 3 elementary schools and 1 comprehensive high school. The District employs 81 non-certified and 162 certified (including 21 administrative) full-time and part-time employees to provide services to approximately 2,367 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" (as amended by GASB Statement No. 39). The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

*Gallia-Jackson-Vinton Joint Vocational School District* - The Vocational School District (the "JVS") is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The school accepts non-tuition students from the District as a member school of the JVS; however, it is considered a separate political subdivision and is not considered to be part of the District.

*South Eastern Ohio Special Education Regional Resource Center (SERRC)* - SERRC 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 SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the board. The District's superintendent is on the SERRC board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. 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. Refer to Note 10 for further information on this group rating plan.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary 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 District's major governmental fund:

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

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*GOVERNMENTAL FUNDS*

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

*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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Agency funds do not report a measurement focus as they do not report operations.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, 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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis of accounting, the fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Gallia County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2004. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**E. Budgets (Continued)**

9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.
10. Encumbrance accounting is utilized by the District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditure. A reserve for encumbrance is not reported on the government-wide financial statements.

**F. Cash and Investments**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$132,667, which includes \$51,145 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at fiscal year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and the consumption method on the government-wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

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



**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**H. Capital Assets (Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintained a capitalization threshold of \$1,500 during fiscal 2004. 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. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

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

**J. Compensated Absences**

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service or employees with 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded as matured compensated absences payable on the fund statements in the fund from which the employee will be paid.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

**L. Fund Balance Reserves/Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds, instructional materials and capital acquisition. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. Designated fund balance represents planned actions for monies set-aside by the District for budget stabilization.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants received which are restricted as to their use by grantors and the amounts for set asides (see Note 16).

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

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

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**P. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds and to create a reserve for textbooks/instructional materials and capital acquisitions. See Note 16 for details.

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE**

For the fiscal year 2004, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. At June 30, 2004, the District does not have any organizations that qualify as component units of the primary government and therefore, there was no effect on fund balance or net assets as a result of implementing GASB Statement No. 39.

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
<u>Nonmajor Governmental Funds</u>	
Federal Emergency Repair	\$ 7,765
Entry-Year Programs	21
Summer Intervention	43
Title VI	2,379

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the 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 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

*Deposits:* At year-end, the carrying amount of the District’s deposits was \$3,660,568 and the bank balance was \$3,691,925.

1. \$100,000 was covered by federal depository insurance; and
2. \$3,591,925 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District had no investments at June 30, 2004.

**NOTE 6 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 60,357

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 6 - INTERFUND TRANSACTIONS – (Continued)**

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	Amount
General fund	\$ <u>225,859</u>
Total transfers	\$ <u>225,859</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 7 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Gallia County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 7 - PROPERTY TAXES – (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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, 2004 was \$1,691 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$74,294 in the general fund and \$1,035 in the debt service 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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 173,757,660	81.59	\$ 176,067,340	81.95
Public Utility Personal	11,284,560	5.30	11,710,820	5.45
Tangible Personal Property	27,923,478	<u>13.11</u>	27,077,845	<u>12.60</u>
 Total	 \$ 212,965,698	 100.00	 \$ 214,856,005	 100.00
 Tax rate per \$1,000 of assessed valuation	 \$ 31.80		 \$ 31.00	

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities:</b>	
Taxes	\$ 4,594,329
Accounts	13,723
Intergovernmental	<u>436,328</u>
Total	<u>\$ 5,044,380</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/04</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 986,120	\$ -	\$ -	\$ 986,120
Construction in progress	-	49,384	-	49,384
Total capital assets, not being depreciated	986,120	49,384	-	1,035,504
<i>Capital assets, being depreciated:</i>				
Land improvements	1,427,475	-	-	1,427,475
Buildings and improvements	4,516,355	274,478	-	4,790,833
Furniture and equipment	1,551,088	153,796	(18,502)	1,686,382
Vehicles	2,022,875	171,170	-	2,194,045
Total capital assets, being depreciated	9,517,793	599,444	(18,502)	10,098,735
<i>Less: accumulated depreciation:</i>				
Land improvements	(737,959)	(56,180)	-	(794,139)
Buildings and improvements	(3,705,143)	(66,626)	-	(3,771,769)
Furniture and equipment	(797,286)	(178,678)	15,306	(960,658)
Vehicles	<u>(1,291,576)</u>	<u>(159,458)</u>	<u>-</u>	<u>(1,451,034)</u>
Total accumulated depreciation	<u>(6,531,964)</u>	<u>(460,942)</u>	<u>15,306</u>	<u>(6,977,600)</u>
Governmental activities capital assets, net	<u>\$ 3,971,949</u>	<u>\$ 187,886</u>	<u>\$ (3,196)</u>	<u>\$ 4,156,639</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$ 156,695
Special	3,742
<b><u>Support Services:</u></b>	
Pupil	3,847
Instructional staff	35,057
Administration	15,026
Fiscal	1,838
Operations and maintenance	27,253
Pupil transportation	161,451
Extracurricular activities	46,995
Food service operations	<u>9,038</u>
Total depreciation expense	<u>\$ 460,942</u>



**GALLIPOLIS CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A.** Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the District's notes outstanding as of June 30, 2004:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Notes <u>Outstanding 06/30/03</u>	<u>Retired in Fiscal 2004</u>	Notes <u>Outstanding 06/30/04</u>
Energy conservation note	5.38%	05/01/97	05/01/06	\$ <u>168,000</u>	\$ <u>(168,000)</u>	\$ <u>-</u>
Total				\$ <u>168,000</u>	\$ <u>(168,000)</u>	\$ <u>-</u>

- B.** During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/04</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>					
Energy conservation notes	\$ 168,000	\$ -	\$ (168,000)	\$ -	\$ -
Compensated absences	<u>1,377,702</u>	<u>164,878</u>	<u>-</u>	<u>1,542,580</u>	<u>164,775</u>
Total long-term obligations, governmental activities	<u>\$ 1,545,702</u>	<u>\$ 164,878</u>	<u>\$ (168,000)</u>	<u>\$ 1,542,580</u>	<u>\$ 164,775</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$19,337,040, an unvoted debt margin of \$214,856 and an unvoted energy conservation debt margin of \$1,933,704.

**NOTE 11 - RISK MANAGEMENT**

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

During fiscal year 2004, the District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation.

**GALLIPOLIS CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 11 - RISK MANAGEMENT – (Continued)**

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded this commercial coverage in any of the past three years. Liability insurance coverage was not significantly reduced from the prior fiscal year.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

*OSBA WORKERS' COMPENSATION GROUP RATING*

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the 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 of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures 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 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$160,448, \$237,088, and \$233,587, respectively; 45.81% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$86,945 represents the unpaid contribution for fiscal year 2004.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,095,641, \$1,156,990, \$1,139,076, respectively; 82.15% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$195,535 represents the unpaid contribution for fiscal year 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$84,280 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, employer contributions to fund health care benefits were 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. 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. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$101,331.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (1,323,024)
Net adjustment for revenue accruals	(315,617)
Net adjustment for expenditure accrals	(47,704)
Net adjustment for other sources/uses	20,986
Adjustment for encumbrances	<u>588,518</u>
GAAP basis	<u>\$ (1,076,841)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”.

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State’s compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>	<u>Budget Stabilization Designation</u>
Set-aside cash balance as of June 30, 2003	\$ 119,356	\$ 180,366	\$ 74,921	\$ 13,653
Current year set-aside requirement	344,299	344,299	-	518
Qualifying disbursements	<u>(330,857)</u>	<u>(163,761)</u>	-	-
Total	<u>\$ 132,798</u>	<u>\$ 360,904</u>	<u>\$ 74,921</u>	<u>\$ 14,171</u>
Balance carried forward to FY 2005	<u>\$ 132,798</u>	<u>\$ 360,904</u>	<u>\$ 74,921</u>	<u>\$ 14,171</u>

The District in a prior year elected to maintain the budget stabilization reserve. This reserve is no longer required under state statute. Therefore, this amount is presented on the balance sheet as a designation of fund balance, rather than a reserve, and is therefore not included in restricted assets.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for BWC refunds	\$ 74,921
Amount restricted for instructional materials	132,798
Amount restricted for capital acquisition	360,904
Total restricted assets	<u>\$ 568,623</u>
Amount designated for budget stabilization	<u>\$ 14,171</u>

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Grant Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b> <i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$0	\$25,707	\$0	\$30,108
National School Breakfast Program	10.553	05PU	59,217	0	59,217	0
National School Lunch Program	10.555	LLP4	<u>228,529</u>	<u>0</u>	<u>228,529</u>	<u>0</u>
Total U.S. Department of Agriculture- Nutrition Cluster			287,746	25,707	287,746	30,108
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1	630,697	0	674,157	0
Special Education Cluster:						
Special Education: Grants to States	84.027	6BSF	343,484	0	435,758	0
Special Education: Preschool Grants	84.173	PGS1	<u>19,133</u>	<u>0</u>	<u>17,980</u>	<u>0</u>
Total Special Education Cluster:			362,617	0	453,738	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	DRS1	22,158	0	23,648	0
Eisenhower Professional Development Education Grant	84.281	MSS1	5,301	0	0	0
State Grants for Innovative Programs	84.298	C2S1	16,094	0	18,128	0
Educational Technology - State Grant	84.318	TJS1	16,563	0	15,444	0
Grants for School Repair and Renovation	84.352	N/A	148,609	0	190,961	0
Improving Teacher Quality	84.367	TRS1	<u>201,475</u>	<u>0</u>	<u>200,402</u>	<u>0</u>
Total United States Department of Education			<u>1,403,514</u>	<u>0</u>	<u>1,576,478</u>	<u>0</u>
<b>UNITES STATES DEPARTMENT OF HOMELAND SECURITY</b> <i>Passed Through Ohio Emergency Management Agency</i>						
Public Assistance Grants	97.036	DR-1453-OH	0	0	2,549	0
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	93.778	N/A	<u>45,077</u>	<u>0</u>	<u>45,077</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u>\$1,736,337</u>	<u>\$25,707</u>	<u>\$1,911,850</u>	<u>\$30,108</u>

*The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.  
N/A- pass through entity number not available*

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

Notes to Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2004

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTIONS**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the School District had no significant food commodities in inventory.



**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Members of the Board  
Gallipolis City School District  
61 State Street  
Gallipolis, Ohio 45631

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the School District), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance over Other Matters**

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

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

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

December 15, 2004

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board  
Gallipolis City School District  
61 State Street  
Gallipolis, Ohio 45631

**Compliance**

We have audited the compliance of the Gallipolis City School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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 each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

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

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, regulation, 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

December 15, 2004

**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY, OHIO**

Schedule of Findings and Questioned Costs  
OMB Circular A-133 Section .505  
For the Fiscal Year Ended June 30, 2004

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported 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 section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #10.550, 10.553 & 10.555 Nutrition Cluster & CFDA #84.027 & 84.173 Special Education Cluster
(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 AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



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**GALLIPOLIS CITY SCHOOL DISTRICT  
GALLIA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2005**