

Gallipolis City School District

Gallipolis, Ohio

Basic Financial Statements

Single Audit

July 1, 2004 Through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005



BALESTRA, HARR & SCHERER
CERTIFIED PUBLIC ACCOUNTANTS
528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



**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, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 16, 2006

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Gallipolis City School District
Gallipolis, Ohio
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BALESTRA, HARR & SCHERER, CPAs, INC.

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

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Gallipolis City School District
61 State Street
Gallipolis, Ohio 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 District), Gallia County, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

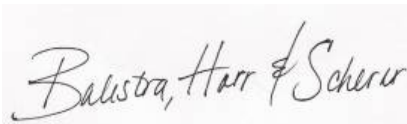
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 receipts and 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 15, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$438,366 which represents a 9.31% decrease from 2004.
- General revenues accounted for \$15,313,013 in revenue or 78.95% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,083,502 or 21.05% of total revenues of \$19,396,515.
- The District had \$19,834,881 in expenses related to governmental activities; only \$4,083,502 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,313,013 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,439,541 in revenues and other financing sources and \$15,504,067 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance decreased \$62,485 from \$424,439 to \$361,954.

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 2005?" 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 9. 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 21-42 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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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 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 9,044,715	\$ 8,766,208
Capital assets	<u>3,917,567</u>	<u>4,156,639</u>
Total assets	<u>12,962,282</u>	<u>12,922,847</u>
<u>Liabilities</u>		
Current liabilities	7,096,997	6,671,956
Long-term liabilities	<u>1,595,340</u>	<u>1,542,580</u>
Total liabilities	<u>8,692,337</u>	<u>8,214,536</u>
<u>Net Assets</u>		
Invested in capital assets	3,917,567	4,156,639
Restricted	2,280,266	1,240,759
Unrestricted (deficit)	<u>(1,927,888)</u>	<u>(689,087)</u>
Total net assets	<u>\$ 4,269,945</u>	<u>\$ 4,708,311</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$4,269,945. At year-end, restricted net assets were \$2,280,266.

At year-end, capital assets represented 30.22% 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, 2005 were \$3,917,567. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

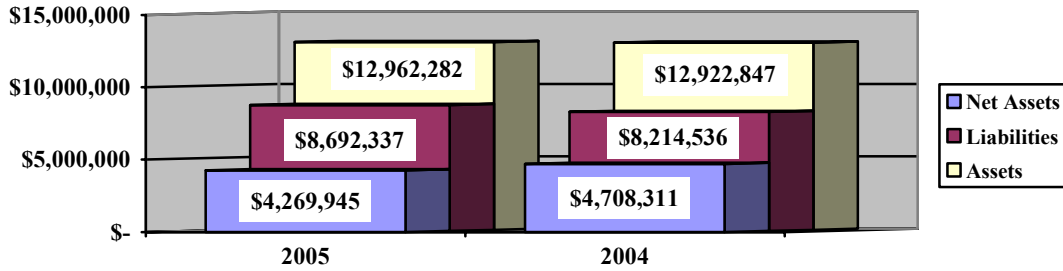
A portion of the District's net assets, \$2,280,266, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,927,888.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The table below illustrates the District's total assets, liabilities and net assets at June 30, 2005 and 2004.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 643,865	\$ 653,365
Operating grants and contributions	3,439,637	3,133,708
Capital grants and contributions	-	53,075
General revenues:		
Property taxes	4,651,040	4,197,186
Grants and entitlements	10,463,173	9,869,339
Investment earnings	132,528	137,135
Other	66,272	81,959
Total revenues	<u>\$ 19,396,515</u>	<u>\$ 18,125,767</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 8,544,607	\$ 8,118,596
Special	2,982,893	2,883,077
Vocational	378,976	345,009
Support services:		
Pupil	872,216	887,658
Instructional staff	1,127,111	1,085,155
Board of education	61,971	50,829
Administration	1,538,863	1,510,856
Fiscal	345,070	328,107
Operations and maintenance	1,198,976	1,366,475
Pupil transportation	1,472,992	1,285,010
Central	104,534	86,434
Operations of non-instructional services	47,575	-
Food service operations	572,661	596,145
Extracurricular activities	586,436	497,886
Interest and fiscal charges	<u>-</u>	<u>7,478</u>
Total expenses	<u>19,834,881</u>	<u>19,048,715</u>
Change in net assets	(438,366)	(922,948)
Net assets at beginning of year	<u>4,708,311</u>	<u>5,631,259</u>
Net assets at end of year	<u><u>\$ 4,269,945</u></u>	<u><u>\$ 4,708,311</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$438,366. Total governmental expenses of \$19,834,881 were offset by program revenues of \$4,083,502 and general revenues of \$15,313,013. Program revenues supported 20.59% of the total governmental expenses.

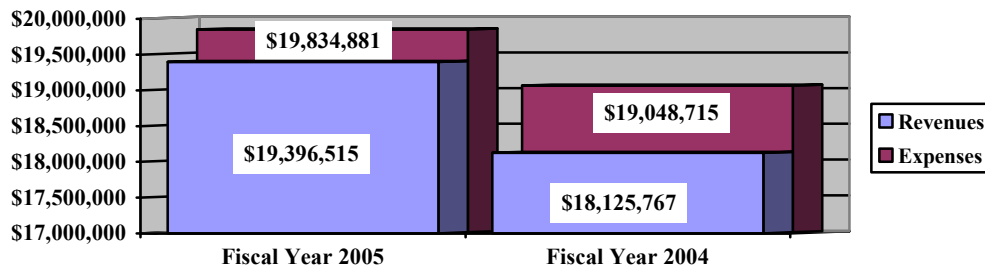
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 77.92% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

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

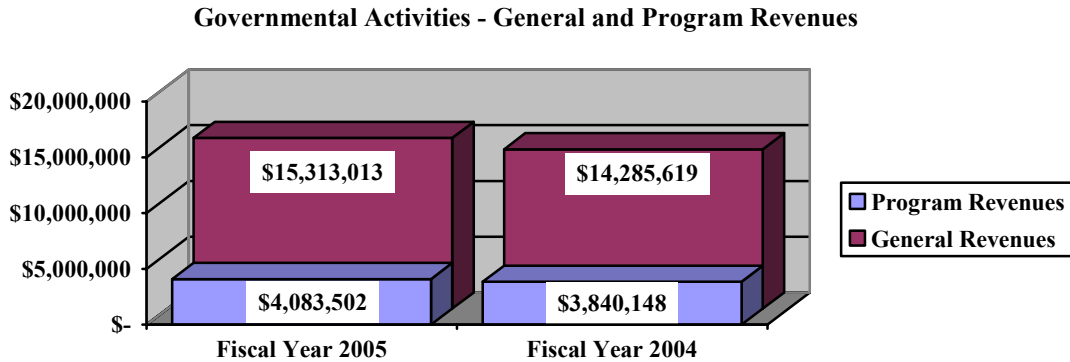
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 8,544,607	\$ 7,144,996	\$ 8,118,596	\$ 6,761,810
Special	2,982,893	2,095,827	2,883,077	1,945,711
Vocational	378,976	378,976	345,009	345,009
Support services:				
Pupil	872,216	789,374	887,658	868,063
Instructional staff	1,127,111	534,952	1,085,155	567,679
Board of education	61,971	56,468	50,829	50,829
Administration	1,538,863	1,452,301	1,510,856	1,429,154
Fiscal	345,070	345,070	328,107	328,107
Operations and maintenance	1,198,976	1,132,663	1,366,475	1,301,442
Pupil transportation	1,472,992	1,410,050	1,285,010	1,222,192
Central	104,534	96,261	86,434	77,549
Operations of non-instructional services	47,575	47,575	-	-
Food service operations	572,661	(130,782)	596,145	(2,684)
Extracurricular activities	586,436	397,648	497,886	306,228
Interest and fiscal charges	-	-	7,478	7,478
Total expenses	<u>\$ 19,834,881</u>	<u>\$ 15,751,379</u>	<u>\$ 19,048,715</u>	<u>\$ 15,208,567</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 80.79% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.41%. 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 2005 and 2004.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,588,330, which is lower than last year's total of \$1,607,561. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 361,954	\$ 424,439	\$ (62,485)
Other Governmental	<u>1,226,376</u>	<u>1,183,122</u>	<u>43,254</u>
Total	<u>\$ 1,588,330</u>	<u>\$ 1,607,561</u>	<u>\$ (19,231)</u>

General Fund

The District's general fund balance decreased \$62,485 (after a restatement to the June 30, 2004 fund balance which is detailed in Note 3.A to the basic financial statements). The decrease in fund balance can be attributed to increasing revenues and increased 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, 2005
UNAUDITED

	<u>2005</u>	<u>Restated</u> <u>2004</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,632,643	\$ 3,940,559	17.56 %
Earnings on investments	127,605	132,667	(3.82) %
Intergovernmental	10,463,173	9,869,339	6.02 %
Other revenues	<u>122,804</u>	<u>146,480</u>	(16.16) %
Total	<u>\$ 15,346,225</u>	<u>\$ 14,089,045</u>	8.92 %
<u>Expenditures</u>			
Instruction	\$ 9,256,763	\$ 8,899,002	4.02 %
Support services	5,615,409	5,805,911	(3.28) %
Extracurricular activities	315,523	289,228	9.09 %
Facilities acquisition and construction	<u>8,539</u>	<u>40,454</u>	(78.89) %
Total	<u>\$ 15,196,234</u>	<u>\$ 15,034,595</u>	1.08 %

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District did not amend its general fund budget. For the general fund, final budgeted revenues and other financing sources were \$15,000,000 which is the same as the original budgeted revenues and other financing sources estimate of \$15,000,000. Actual revenues and other financing sources for fiscal 2005 was \$15,446,436. This represents a \$446,436 increase over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures plus other financing uses) totaled \$15,588,518. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$15,630,179, which was \$41,661 more than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,917,567 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 2005 balances compared to 2004:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 986,120	\$ 986,120
Land improvements	582,273	633,336
Building and improvements	957,155	1,019,064
Furniture and equipment	637,303	725,724
Vehicles	705,332	743,011
Construction in progress	49,384	49,384
Total	\$ 3,917,567	\$ 4,156,639

Total additions to capital assets for 2005 were \$232,716. The overall decrease in capital assets of \$239,072 is primarily due to depreciation expense of \$471,788 in fiscal 2005.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had no outstanding debt.

At June 30, 2005, the District's overall legal debt margin was \$19,771,478 with an unvoted debt margin of \$219,683 and an energy conservation debt margin of \$1,977,148.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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.

A challenge facing the District is the need to update its facilities to enhance learning space design for students. The Board has been 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 89 years old and the "newer" building for grades 9-12 was built in 1957. On May 27, 2005 the district was approved to participate in the Exceptional Needs Program. The scope of the project will be to build one new high school to house grades 9-12; renovation/additions to the 1958 and 1976 sections of Gallia Academy High School to house grades 6-8; allowance to abate/demolish the 1916 section of the Gallia Academy High School. The state will provide 64% of the funding or \$27,925,959. In November 2005, the public responded by passing a bond issue for the remaining funding necessary to begin the project.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the 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.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,467,461
Receivables:	
Taxes	5,025,726
Accounts	23,961
Intergovernmental	375,369
Prepayments	58,716
Materials and supplies inventory	93,482
Capital assets:	
Land and construction in progress	1,035,504
Depreciable capital assets, net	2,882,063
Total capital assets, net.	3,917,567
 Total assets.	 12,962,282
 Liabilities:	
Accounts payable.	380,627
Accrued wages and benefits	1,612,150
Pension obligation payable.	371,573
Intergovernmental payable	131,926
Deferred revenue	4,600,721
Long-term liabilities:	
Due within one year.	122,950
Due within more than one year	1,472,390
Total liabilities.	8,692,337
 Net Assets:	
Invested in capital assets	3,917,567
Restricted for:	
Capital projects	647,170
State funded programs	41,836
Federally funded programs	221,785
Student activities.	68,413
Other purposes	1,301,062
Unrestricted (deficit)	(1,927,888)
 Total net assets	 \$ 4,269,945

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, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,544,607	\$ 61,283	\$ 1,338,328	\$ (7,144,996)
Special	2,982,893	-	887,066	(2,095,827)
Vocational	378,976	-	-	(378,976)
Support services:				
Pupil	872,216	-	82,842	(789,374)
Instructional staff	1,127,111	-	592,159	(534,952)
Board of education	61,971	-	5,503	(56,468)
Administration	1,538,863	-	86,562	(1,452,301)
Fiscal	345,070	-	-	(345,070)
Operations and maintenance	1,198,976	-	66,313	(1,132,663)
Pupil transportation	1,472,992	62,942	-	(1,410,050)
Central	104,534	-	8,273	(96,261)
Operation of non-instructional services:				
Other non-instructional services	47,575	-	-	(47,575)
Food service operations	572,661	330,852	372,591	130,782
Extracurricular activities	586,436	188,788	-	(397,648)
Total governmental activities	\$ 19,834,881	\$ 643,865	\$ 3,439,637	(15,751,379)
General Revenues:				
Property taxes levied for:				
General purposes				4,651,040
Grants and entitlements not restricted to specific programs				10,463,173
Investment earnings				132,528
Miscellaneous				66,272
Total general revenues				15,313,013
Change in net assets				(438,366)
Net assets at beginning of year				4,708,311
Net assets at end of year				\$ 4,269,945

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 895,277	\$ 1,596,265	\$ 2,491,542
Receivables:			
Taxes	5,025,726	-	5,025,726
Accounts	23,961	-	23,961
Intergovernmental	577	374,792	375,369
Interfund loans	136,126	-	136,126
Prepayments	45,453	13,263	58,716
Materials and supplies inventory	72,258	21,224	93,482
Restricted assets:			
Equity in pooled cash and cash equivalents	975,919	-	975,919
Total assets	\$ 7,175,297	\$ 2,005,544	\$ 9,180,841
Liabilities:			
Accounts payable	\$ 180,082	\$ 200,545	\$ 380,627
Accrued wages and benefits	1,288,660	323,490	1,612,150
Compensated absences payable	2,662	-	2,662
Pension obligation payable.	280,959	90,614	371,573
Intergovernmental payable.	103,533	28,393	131,926
Interfund loans payable.	-	136,126	136,126
Deferred revenue.	4,957,447	-	4,957,447
Total liabilities	6,813,343	779,168	7,592,511
Fund Balances:			
Reserved for encumbrances	246,629	61,896	308,525
Reserved for materials and supplies inventory.	72,258	21,224	93,482
Reserved for prepayments	45,453	13,263	58,716
Reserved for property tax unavailable for appropriation	68,279	-	68,279
Reserved for BWC refunds.	74,921	-	74,921
Reserved for instructional materials	360,023	-	360,023
Reserved for capital acquisition	540,975	-	540,975
Unreserved:			
Designation for budget stabilization.	15,718	-	15,718
Undesignated, (deficit) reported in:			
General fund	(1,062,302)	-	(1,062,302)
Special revenue funds.	-	482,823	482,823
Capital projects funds.	-	647,170	647,170
Total fund balances	361,954	1,226,376	1,588,330
Total liabilities and fund balances	\$ 7,175,297	\$ 2,005,544	\$ 9,180,841

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, 2005

Total governmental fund balances		\$ 1,588,330
<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.		3,917,567
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	<u>\$ 356,726</u>	
Total		356,726
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	<u>1,592,678</u>	
Total		<u>(1,592,678)</u>
Net assets of governmental activities		<u><u>\$ 4,269,945</u></u>

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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,632,643	\$ -	\$ 4,632,643
Tuition	24,878	-	24,878
Transportation fees	62,942	-	62,942
Earnings on investments.	127,605	4,923	132,528
Charges for services.	-	330,852	330,852
Extracurricular.	-	188,788	188,788
Classroom materials and fees	-	36,405	36,405
Other local revenues.	34,984	31,288	66,272
Intergovernmental - state.	10,436,529	1,354,016	11,790,545
Intergovernmental - federal.	26,644	2,194,581	2,221,225
Total revenue	<u>15,346,225</u>	<u>4,140,853</u>	<u>19,487,078</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,868,291	1,586,275	8,454,566
Special.	2,022,387	980,247	3,002,634
Vocational.	366,085	27,847	393,932
Support services:			
Pupil.	790,220	84,604	874,824
Instructional staff	417,016	701,329	1,118,345
Board of education	61,971	-	61,971
Administration.	1,368,472	114,344	1,482,816
Fiscal	350,329	12,705	363,034
Operations and maintenance.	1,265,712	31,894	1,297,606
Pupil transportation	1,267,950	39,948	1,307,898
Central.	93,739	9,954	103,693
Operation of non-instructional services:			
Other non-instructional services	-	63,475	63,475
Food service operations	-	563,663	563,663
Extracurricular activities	315,523	192,779	508,302
Facilities acquisition and construction	8,539	-	8,539
Total expenditures	<u>15,196,234</u>	<u>4,409,064</u>	<u>19,605,298</u>
Excess of revenues over (under) expenditures	<u>149,991</u>	<u>(268,211)</u>	<u>(118,220)</u>
Other financing sources (uses):			
Transfers in	-	307,833	307,833
Transfers (out)	(307,833)	-	(307,833)
Proceeds from sale of assets.	93,316	-	93,316
Total other financing sources (uses)	<u>(214,517)</u>	<u>307,833</u>	<u>93,316</u>
Net change in fund balances	(64,526)	39,622	(24,904)
Fund balances			
at beginning of year (restated).	424,439	1,183,122	1,607,561
Increase in reserve for inventory.	2,041	3,632	5,673
Fund balances at end of year.	<u>\$ 361,954</u>	<u>\$ 1,226,376</u>	<u>\$ 1,588,330</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, 2005

Net change in fund balances - total governmental funds	\$ (24,904)
<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 depreciation expense (\$471,788) exceeds capital outlays (\$232,716) in the current period.	(239,072)
Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when consumed.	5,673
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(90,563)
Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(89,500)</u>
Change in net assets of governmental activities	<u>\$ (438,366)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,434,087	\$ 4,434,087	\$ 4,566,055	\$ 131,968
Tuition	24,159	24,159	24,878	719
Transportation fees	62,447	62,447	64,306	1,859
Earnings on investments	123,917	123,917	127,605	3,688
Other local revenues	31,455	31,455	32,391	936
Intergovernmental - state	10,134,329	10,134,329	10,435,952	301,623
Intergovernmental - federal	25,874	25,874	26,644	770
Total revenue	<u>14,836,268</u>	<u>14,836,268</u>	<u>15,277,831</u>	<u>441,563</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,783,596	6,783,596	6,800,444	(16,848)
Special	1,950,776	1,950,776	2,002,581	(51,805)
Vocational	361,501	361,501	363,272	(1,771)
Support services:				
Pupil	789,114	789,114	801,513	(12,399)
Instructional staff	431,617	431,617	437,122	(5,505)
Board of education	56,872	56,872	58,734	(1,862)
Administration	1,351,641	1,351,641	1,374,276	(22,635)
Fiscal	367,023	367,023	361,051	5,972
Operations and maintenance	1,309,648	1,309,648	1,316,209	(6,561)
Pupil transportation	1,355,278	1,355,278	1,270,634	84,644
Central	92,058	92,058	81,584	10,474
Extracurricular activities	303,912	303,912	310,261	(6,349)
Facilities acquisition and construction	8,217	8,217	8,539	(322)
Total expenditures	<u>15,161,253</u>	<u>15,161,253</u>	<u>15,186,220</u>	<u>(24,967)</u>
Excess of revenues under expenditures	<u>(324,985)</u>	<u>(324,985)</u>	<u>91,611</u>	<u>416,596</u>
Other financing sources (uses):				
Refund of prior year expenditure	14,500	14,500	14,932	432
Transfers (out)	(296,258)	(296,258)	(307,833)	(11,575)
Advances in	58,613	58,613	60,357	1,744
Advances (out)	(131,007)	(131,007)	(136,126)	(5,119)
Proceeds from sale of capital assets	90,619	90,619	93,316	2,697
Total other financing sources (uses)	<u>(263,533)</u>	<u>(263,533)</u>	<u>(275,354)</u>	<u>(11,821)</u>
Net change in fund balance	(588,518)	(588,518)	(183,743)	404,775
Fund balance at beginning of year	1,612,421	1,612,421	1,612,421	-
Prior year encumbrances appropriated	588,518	588,518	588,518	-
Fund balance at end of year	<u>\$ 1,612,421</u>	<u>\$ 1,612,421</u>	<u>\$ 2,017,196</u>	<u>\$ 404,775</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 48,855
Total assets.	\$ 48,855
Liabilities:	
Accounts payable.	\$ 916
Due to students	47,939
Total liabilities	\$ 48,855

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, 2005**

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 221st largest by enrollment among the 614 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 2,371 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, "Determining Whether Certain Organizations Are Component Units". 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 these 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, 2005

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

GOVERNMENTAL FUNDS

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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.

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 original and final Amended Certificate issued for fiscal year 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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 2005. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
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.

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 earning 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 2005 amounted to \$127,605, which includes \$52,409 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 District's investment account at fiscal year-end is provided in Note 4.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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 2005. 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.

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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, 2005, 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, 2005 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.

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/Designation

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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 15).

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.

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 15 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 2005.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund Balances, June 30, 2004	\$ 493,755	\$ 1,201,686	\$ 1,695,441
GASB Technical Bulletin No. 2004-2	(69,316)	(18,564)	(87,880)
Restated Fund Balances, June 30, 2004	\$ 424,439	\$ 1,183,122	\$ 1,607,561

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
<u>Nonmajor Governmental Funds</u>	
Uniform School Supplies	\$ 10,230
Entry Year Programs	75
Disadvantaged Pupil Impact Aid	120,832
Education For Economic Security Act	167
Miscellaneous Federal Grants	4,353

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. These deficit fund balances are the result of adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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 two percent 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 Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The District had no investments at fiscal year end.

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$3,516,316. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$100,000 of the District's bank balance of \$3,870,524 was covered by the Federal Deposit Insurance Corporation, while \$3,770,524 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets

The following is a reconciliation of cash and cash equivalents as reported in the footnote above to cash and cash equivalents as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Cash Equivalents per footnote</u>	
Carrying amount of deposits	\$ 3,516,316
Total	<u>\$ 3,516,316</u>
 <u>Cash and Cash Equivalents per Statement of Net Assets</u>	
Governmental activities	\$ 3,467,461
Agency funds	48,855
Total	<u>\$ 3,516,316</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 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	\$ 136,126

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, 2005 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	<u>\$ 307,833</u>
Total transfers	<u>\$ 307,833</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 6 - 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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 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, 2005 was \$68,279 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$1,691 in the general 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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 176,067,340	81.95	\$ 180,093,440	82.00
Public Utility Personal	11,710,820	5.45	11,927,520	5.40
Tangible Personal Property	<u>27,077,845</u>	<u>12.60</u>	<u>27,662,124</u>	<u>12.60</u>
Total	<u>\$ 214,856,005</u>	<u>100.00</u>	<u>\$ 219,683,084</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 31.00		\$ 31.00	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 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:

Governmental Activities:

Taxes	\$ 5,025,726
Accounts	23,961
Intergovernmental	<u>375,369</u>
Total	<u>\$ 5,425,056</u>

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 986,120	\$ -	\$ -	\$ 986,120
Construction in progress	<u>49,384</u>	<u>-</u>	<u>-</u>	<u>49,384</u>
Total capital assets, not being depreciated	<u>1,035,504</u>	<u>-</u>	<u>-</u>	<u>1,035,504</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,427,475	3,890	-	1,431,365
Buildings and improvements	4,790,833	1,800	-	4,792,633
Furniture and equipment	1,686,382	103,246	-	1,789,628
Vehicles	<u>2,194,045</u>	<u>123,780</u>	<u>-</u>	<u>2,317,825</u>
Total capital assets, being depreciated	<u>10,098,735</u>	<u>232,716</u>	<u>-</u>	<u>10,331,451</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(794,139)	(54,953)	-	(849,092)
Buildings and improvements	(3,771,769)	(63,709)	-	(3,835,478)
Furniture and equipment	(960,658)	(191,667)	-	(1,152,325)
Vehicles	<u>(1,451,034)</u>	<u>(161,459)</u>	<u>-</u>	<u>(1,612,493)</u>
Total accumulated depreciation	<u>(6,977,600)</u>	<u>(471,788)</u>	<u>-</u>	<u>(7,449,388)</u>
Governmental activities capital assets, net	<u>\$ 4,156,639</u>	<u>\$ (239,072)</u>	<u>\$ -</u>	<u>\$ 3,917,567</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 156,296
Special	10,401
 <u>Support Services:</u>	
Pupil	6,036
Instructional staff	34,507
Administration	15,668
Fiscal	914
Operations and maintenance	30,421
Pupil transportation	161,213
Extracurricular activities	46,987
Food service operations	<u>9,345</u>
Total depreciation expense	<u>\$ 471,788</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	<u>\$ 1,542,580</u>	<u>\$ 52,760</u>	<u>\$ -</u>	<u>\$ 1,595,340</u>	<u>\$ 122,950</u>
Total long-term obligations, governmental activities	<u>\$ 1,542,580</u>	<u>\$ 52,760</u>	<u>\$ -</u>	<u>\$ 1,595,340</u>	<u>\$ 122,950</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, 2005 are a voted debt margin of \$19,771,478, an unvoted debt margin of \$219,683, and an unvoted energy conservation debt margin of \$1,977,148.

**GALLIPOLIS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 10 - 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 2005, 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.

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. There were no significant reductions in liability insurance coverage from the prior year.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the District.

OSBA WORKERS' COMPENSATION GROUP RATING

For fiscal year 2005, 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 11 - DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, or by calling (614) 222-5853.

**GALLIPOLIS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$210,132, \$160,448 and \$237,088, respectively; 38.50% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$129,180 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary 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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,081,898, \$1,095,641, and \$1,156,990, respectively; 80.40% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$211,680 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$11,647 made by the District and \$15,030 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 12 - 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$77,278 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$102,141 during the 2005 fiscal year.

NOTE 13 - 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);
- (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:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (183,743)
Net adjustment for revenue accruals	68,394
Net adjustment for expenditure accruals	(431,431)
Net adjustment for other sources/uses	60,837
Adjustment for encumbrances	<u>421,417</u>
GAAP basis	<u><u>\$ (64,526)</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - 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...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 15 - 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, 2005, 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, 2004	\$ 132,798	\$ 360,904	\$ 74,921	\$ 14,171
Current year set-aside requirement	342,392	342,392	-	1,547
Qualifying disbursements	<u>(115,167)</u>	<u>(162,321)</u>	-	-
Total	<u>\$ 360,023</u>	<u>\$ 540,975</u>	<u>\$ 74,921</u>	<u>\$ 15,718</u>
Balance carried forward to FY 2006	<u>\$ 360,023</u>	<u>\$ 540,975</u>	<u>\$ 74,921</u>	<u>\$ 15,718</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 15 - STATUTORY RESERVES - (Continued)

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, 2005 follows:

Amount restricted for BWC refunds	\$ 74,921
Amount restricted for instructional materials	360,023
Amount restricted for capital acquisition	<u>540,975</u>
Total restricted assets	<u>\$ 975,919</u>
Amount designated for budget stabilization	<u>\$ 15,718</u>

NOTE 16 – SUBSEQUENT EVENTS

Gallipolis City School District was approved for \$43.6 million from the Ohio School Facilities Commission for the purpose of construction of a new high school and renovations to existing facilities. The state will provide 64% of the funding or approximately 27.9 million. In November of 2005, the residents of the District approved a bond levy allowing the District to issue bonds for the remaining funding necessary to begin the project.

Gallipolis City School District
Gallia County
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	NA	10.550	\$ -	\$ 26,415	\$ -	\$ 26,415
National School Breakfast Program	05PU	10.553	75,964	-	75,964	-
National School Lunch Program	LLP4	10.555	253,243	-	253,243	-
Total United States Department of Agriculture - Nutrition Cluster			329,207	26,415	329,207	26,415
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Education Agencies	C1S1	84.010	612,991	-	636,296	-
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BSF	84.027	606,867	-	498,766	-
Special Education - Preschool Grant	PGS1	84.173	21,512	-	30,454	-
Total Special Education Cluster			628,379	-	529,220	-
<i>Passed through Gallia-Jackson-Vinton Board of Alcohol, Drug Addiction, and Mental Health Services</i>						
State and Drug-Free Schools and Communities - State Grants	NA	84.186	50,446	-	41,338	-
<i>Passed through Ohio Department of Education</i>						
State and Drug-Free Schools and Communities - State Grants	DRS1	84.186	15,898	-	16,213	-
Total Safe and Drug-Free Schools and Communities			66,344	-	57,551	-
Twenty-First Century Community Learning Centers	T1S1	84.287	299,029	-	280,092	-
State Grants for Innovative Programs	C2S1	84.298	10,901	-	10,184	-
Education Technology State Grants	TJS1	84.318	15,411	-	16,719	-
Rural Education	RUS1	84.358	118	-	10,590	-
Improving Teacher Quality State Grants	TRS1	84.367	135,004	-	139,823	-
<i>Passed through Ohio School Facilities Commission</i>						
Emergency School Repair	NA	84.352	26,391	-	43,619	-
Total United States Department of Education			1,794,568	-	1,724,094	-
United States Department of Health and Human Services						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	NA	93.767	523	-	523	-
Medical Assistance Program	NA	93.778	12,191	-	12,191	-
Total United States Department of Health and Human Services			12,714	-	12,714	-
Total Federal Financial Assistance			\$ 2,136,489	\$ 26,415	\$ 2,066,015	\$ 26,415

NA - Not Available

See accompanying notes to the schedule of federal awards receipts and expenditures

Gallipolis City school District
Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures includes the federal grant activity of the Gallipolis City School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTIONS

Nonmonetary 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, 2005, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAs, INC.

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

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**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 accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gallipolis City School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 15, 2005 wherein we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. 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 District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 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 and Other Matters

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

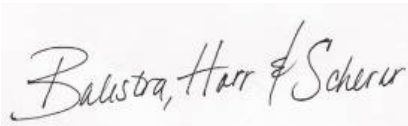
Members of the Board

Gallipolis City School District

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*

Page 2

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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 15, 2005

BALESTRA, HARR & SCHERER, CPAs, INC.

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

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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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 Gallipolis City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-001.

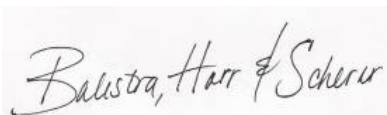
Members of the Board
Gallipolis City School District
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR
A-133

Internal Control Over Compliance

The management of the 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 District's 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 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.

December 15, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505**

**GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
JUNE 30, 2005

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2004-001
CFDA Title and Number	Special Education Cluster 84.027 and 84.173
Federal Award Number/Year	044032-6BSF-2005 and 044032-PGS1-2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR 80.20(c) states that grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to minimize the time elapsing between the transfer of the funds and their disbursement. In addition, Assurance #33 of the 2005 consolidated grant agreement between the Ohio Department of Education (ODE) and Gallipolis City School District (the District), states that when funds are advanced by ODE to the District, the District agrees to minimize the time between the transfer and the disbursement of these funds. The District agrees to maintain cash balances which meet their immediate cash needs only.

The Project Cash Request form, utilized by ODE and the District to communicate immediate needs was incorrectly completed indicating a need for funding for the succeeding month in an amount that was greater than what was spent in that month. Subsequent Project Cash Requests continued to overstate need resulting in a cash balance at the District in excess of their immediate needs.

Management should review the Project Cash Request forms to determine the amount of additional funding necessary only for their immediate needs.

CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 SECTION .315(c)

GALLIPOLIS CITY SCHOOL DISTRICT
GALLIA COUNTY, OHIO
JUNE 30, 2005

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	The District Treasurer is working with the grantor (ODE) to explain the circumstances surrounding the error resulting in this noncompliance and in determining the corrective action necessary.	December 31, 2005	District Treasurer



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MARCH 2, 2006**