

Westfall Local School District

Pickaway County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Westfall Local School District
19463 Pherson Pike
Williamsport, Ohio 43164

We have reviewed the *Independent Auditor's Report* of the Westfall Local School District, Pickaway 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 Westfall Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 21, 2006

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Westfall Local School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Westfall Local School District
19463 Pherson Pike
Williamsport, OH 43164

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental 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 cash flows, where applicable, 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 February 10, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 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 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 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, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employees*.



Balestra, Harr & Scherer, CPAs, Inc.
February 10, 2006

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of the Westfall Local School District's financial performance provides an overview and analysis 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Westfall Local School District exceeded its liabilities at June 30, 2005 by \$7,661,832. This balance was comprised of a \$7,377,884 balance in capital assets net of related debt and \$1,401,309 balance in net asset amounts restricted for specific purposes and a deficit balance of \$1,117,461 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$298,687, which represents a 4.06 percent decrease from 2004.
- ▶ General revenues accounted for \$11,216,931 or 79.33 percent of all revenues. Program specific Revenues in the form of charges for services and sales, grants and contributions accounted for \$2,923,151 or 20.67 percent of total revenues of \$14,140,082.
- ▶ The District had \$13,841,395 in expenses related to governmental activities; \$2,923,151 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$11,216,931 were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$11,125,937 in revenues and \$10,943,722 in expenditures in fiscal year 2005.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Westfall Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District's activities are shown as governmental activities. All of the District's programs and services are reported here, including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's two major governmental funds are the General and Bond Retirement Funds.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the accrual basis of accounting.

Fiduciary Funds

The District's only fiduciary funds are agency funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2005 compared to fiscal year 2004:

Table 1
Net Assets

| | <u>Governmental Activities</u> | |
|---|--------------------------------|------------------|
| | 2005 | Restated 2004 |
| <u>Assets:</u> | | |
| Current and Other Assets | \$6,644,481 | \$5,205,796 |
| Capital Assets, Net | 13,491,465 | 14,100,129 |
| <i>Total Assets</i> | 20,135,946 | 19,305,925 |
| <u>Liabilities:</u> | | |
| Long-Term Liabilities | 7,001,021 | 7,256,684 |
| Other Liabilities | 5,473,093 | 4,686,096 |
| <i>Total Liabilities</i> | 12,474,114 | 11,942,780 |
| <u>Net Assets:</u> | | |
| Invested in Capital Assets, Net of Related Debt | 7,377,984 | 7,735,968 |
| Restricted | 1,401,309 | 925,169 |
| Unrestricted | (1,117,461) | (1,297,992) |
| <i>Total Net Assets</i> | \$7,661,832 | \$7,363,145 |

Current and other assets increased \$1,438,685 from fiscal year 2004 due to an increase in cash and cash equivalents held by the District. Capital assets decreased by \$608,664 due mainly to current year depreciation.

Current (other) liabilities increased by \$786,997 or 16.79 percent primarily due to an increase in deferred revenue related to taxes receivable.

Long-term liabilities decreased by \$255,663 as the result of scheduled payments made on the District's debt obligations.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

A portion of the District's net assets is restricted. The restricted net assets are subject to external restrictions on how they may be used.

The remaining negative balance of \$1,117,461 is unrestricted assets. The unrestricted net assets are negative due to the amount of liabilities accrued and the amount of net assets restricted or invested in capital assets.

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

Table 2
Changes in Net Assets

| | Governmental Activities | |
|--------------------------------------|-------------------------|------------------|
| | 2005 | Restated 2004 |
| <u>Revenues:</u> | | |
| <i>Program Revenue:</i> | | |
| Charges for Services and Sales | \$919,803 | \$829,666 |
| Operating Grants and Contributions | 2,003,348 | 1,032,092 |
| <i>General Revenue:</i> | | |
| Property Taxes | 4,100,091 | 3,836,032 |
| Unrestricted Grants and Entitlements | 6,443,394 | 6,795,809 |
| Payments in Lieu of Taxes | 506,459 | 518,344 |
| Gifts and Donations | 0 | 22,443 |
| Investment Earnings | 13,349 | 10,817 |
| Miscellaneous | 153,638 | 145,587 |
| <i>Total Revenues</i> | 14,140,082 | 13,190,790 |
| <u>Expenses:</u> | | |
| <i>Program Expenses:</i> | | |
| <i>Instruction:</i> | | |
| Regular | 6,395,474 | 6,155,125 |
| Special | 979,438 | 1,247,104 |
| Vocational | 22,859 | 18,055 |

(Continued)

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 2
Changes in Net Assets

| | 2005 | Restated 2004 |
|---|-------------|------------------|
| <i>Support Services:</i> | | |
| Pupils | 339,452 | 358,485 |
| Instructional Staff | 1,062,850 | 894,506 |
| Board of Education | 101,928 | 82,420 |
| Administration | 1,149,170 | 1,327,783 |
| Fiscal | 291,601 | 327,156 |
| Business | 63,705 | 62,534 |
| Operation and Maintenance of Plant | 1,073,810 | 933,029 |
| Pupil Transportation | 1,016,789 | 1,028,105 |
| Central | 67,233 | 40,806 |
| <i>Operation of Non-Instructional Services:</i> | | |
| Food Service | 610,053 | 591,782 |
| Extracurricular Activities | 314,236 | 387,979 |
| Interest and Fiscal Charges | 352,797 | 361,377 |
| <i>Total Expenses</i> | 13,841,395 | 13,816,246 |
| <i>Change in Net Assets</i> | 298,687 | (625,456) |
| Net Assets – Beginning of Year | 7,363,145 | 7,988,601 |
| Net Assets – End of Year | \$7,661,832 | \$7,363,145 |

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The most significant program expenses for the District are Regular Instruction, Administration, Operation and Maintenance of Plant, Instructional Staff and Pupil Transportation. These programs account for 77.30 percent of the total governmental activities. Regular Instruction, which accounts for 46.21 percent of the total, represents costs associated with providing general educational services. Administration, which represents 8.30 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Operation and Maintenance of Plant, which represents 7.76 percent of the total, represents costs associated with providing Instructional Staff 7.68 percent. Pupil Transportation, which represents 7.35 percent of the total cost, represents costs associated with transporting students to and from school, as well as activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 74.56 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has experienced a declining financial condition. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 29.00 percent and intergovernmental revenue made up 59.74 percent of the total revenue for the governmental activities in fiscal year 2005.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2005, the District received \$6,762,794 through the State's foundation program, which represents 47.83 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.45 percent of governmental activities program expenses. Support services expenses make up 37.33 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2005 | 2005 | 2004 | 2004 |
| <i>Program Expenses:</i> | | | | |
| Instruction | \$7,397,771 | \$6,033,654 | \$7,420,284 | \$6,584,862 |
| Support Services | 5,166,538 | 4,408,896 | 5,054,824 | 4,736,759 |
| Operation of Non-Instructional Services | 610,053 | 30,525 | 591,782 | 70,453 |
| Extracurricular Activities | 314,236 | 92,372 | 387,979 | 201,131 |
| Interest and Fiscal Charges | 352,797 | 352,797 | 361,377 | 361,283 |
| Total Expenses | <u>\$13,841,395</u> | <u>\$10,918,244</u> | <u>\$13,816,246</u> | <u>\$11,954,488</u> |

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$14,284,470 and expenditures and other financing uses of \$13,940,710.

Total governmental funds fund balance increased by \$343,760. The increase in fund balance for the year was most significant in the other governmental funds.

The District should remain stable in fiscal years 2006 through 2009, based upon most recent forecast. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2005, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$11,046,213 representing a \$756,284 decrease from the original budget estimates of \$10,289,929. The final budget reflected a 7.35 percent decrease from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$11,160,773 representing a \$296,170 change from the original budget estimate of \$10,864,603.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$19.9 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$6.4 million. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2005

| | <u>Governmental Activities</u> | |
|---------------------------------------|--------------------------------|---------------------|
| | 2005 | Restated 2004 |
| <i>Nondepreciable Capital Assets:</i> | | |
| Land | \$105,604 | \$105,604 |
| <i>Depreciable Capital Assets:</i> | | |
| Land Improvements | 1,737,228 | 1,681,405 |
| Buildings and Improvements | 15,275,952 | 15,253,113 |
| Furniture, Fixtures and Equipment | 425,206 | 425,206 |
| Vehicles | 1,420,993 | 1,308,993 |
| Library Books and Text Books | 892,299 | 892,299 |
| Total Capital Assets | 19,857,282 | 19,666,620 |
| <i>Accumulated Depreciation:</i> | | |
| Land Improvements | (621,229) | (550,243) |
| Buildings and Improvements | (3,918,624) | (3,497,785) |
| Furniture, Fixtures and Equipment | (229,333) | (195,440) |
| Vehicles | (924,302) | (799,410) |
| Library Books and Text Books | (672,329) | (523,613) |
| Total Accumulated Depreciation | (6,365,817) | (5,566,491) |
| Capital Assets, Net | \$13,491,465 | \$14,100,129 |

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2005, the District had \$6,000,059 in general obligation debt outstanding with \$210,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2005 compared to fiscal year 2004.

Table 5
Outstanding Debt, Governmental Activities at Year End

| Purpose | 2005 | 2004 |
|--------------------------|-------------|-------------|
| General Obligation Bonds | \$6,000,059 | \$6,177,863 |

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Westfall Local School District has experienced a declining financial condition over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

As indicated in the preceding financial information, the District relies on the State's foundation program for nearly half of their funding. In the spring of 2003, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2003 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2005 and the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

The State Legislature has also made several significant changes impacting local taxes:

In 2005, the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced through 2006; after this a phase out formula would begin.

The Westfall Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes to over 84 percent of the District's real estate valuation.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Scott Glandon, Treasurer of Westfall Local School Board of Education, 19463 Pherson Pike, Williamsport, Ohio 43164.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$1,702,856 |
| Cash and Cash Equivalents with Fiscal Agents | 41,007 |
| Property Taxes Receivable | 4,587,904 |
| Accounts Receivable | 260 |
| Intergovernmental Receivable | 215,522 |
| Inventory Held for Resale | 14,794 |
| <u>Restricted Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | 82,138 |
| Nondepreciable Capital Assets | 105,604 |
| Depreciable Capital Assets, Net | <u>13,385,861</u> |
| <i>Total Assets</i> | <u>20,135,946</u> |
| <u>Liabilities:</u> | |
| Accrued Wages and Benefits | 1,064,140 |
| Intergovernmental Payable | 303,325 |
| Accrued Interest Payable | 28,308 |
| Deferred Revenue | 3,873,079 |
| Claims Payable | 204,241 |
| <u>Long-Term Liabilities:</u> | |
| Due within One Year | 354,635 |
| Due in More Than One Year | <u>6,646,386</u> |
| <i>Total Liabilities</i> | <u>12,474,114</u> |
| <u>Net Assets:</u> | |
| Invested in Capital Assets, Net of Related Debt | 7,377,984 |
| <u>Restricted for:</u> | |
| Capital Outlay | 558,951 |
| Debt Service | 252,251 |
| Other Purposes | 507,969 |
| Set Asides | 82,138 |
| Unrestricted | <u>(1,117,461)</u> |
| <i>Total Net Assets</i> | <u><u>\$7,661,832</u></u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2005

| | <u>Program Revenues</u> | | | Net (Expense) Revenue and Changes in Net Assets |
|---|-------------------------|--------------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| <u>Governmental Activities:</u> | | | | |
| <i>Instruction:</i> | | | | |
| Regular | \$6,395,474 | \$356,615 | \$442,307 | (\$5,596,552) |
| Special | 979,438 | 0 | 563,539 | (415,899) |
| Vocational | 22,859 | 0 | 1,656 | (21,203) |
| <i>Support Services:</i> | | | | |
| Pupils | 339,452 | 0 | 10,453 | (328,999) |
| Instructional Staff | 1,062,850 | 11,959 | 199,530 | (851,361) |
| Board of Education | 101,928 | 0 | 1,622 | (100,306) |
| Administration | 1,149,170 | 5,980 | 911 | (1,142,279) |
| Fiscal | 291,601 | 0 | 0 | (291,601) |
| Business | 63,705 | 0 | 0 | (63,705) |
| Operation and Maintenance of Plant | 1,073,810 | 0 | 7,487 | (1,066,323) |
| Pupil Transportation | 1,016,789 | 0 | 514,656 | (502,133) |
| Central | 67,233 | 0 | 5,044 | (62,189) |
| <i>Operation of Non-Instructional Services:</i> | | | | |
| Food Service | 610,053 | 338,899 | 240,629 | (30,525) |
| Extracurricular Activities | 314,236 | 206,350 | 15,514 | (92,372) |
| Interest and Fiscal Charges | 352,797 | 0 | 0 | (352,797) |
| Total Governmental Activities | \$13,841,395 | \$919,803 | \$2,003,348 | (10,918,244) |
| <u>General Revenues:</u> | | | | |
| <i>Property Taxes Levied for:</i> | | | | |
| General Purposes | | | | 3,088,980 |
| Debt Service | | | | 478,400 |
| Capital Outlay | | | | 532,711 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 6,443,394 |
| Payments in Lieu of Taxes | | | | 506,459 |
| Investment Earnings | | | | 13,349 |
| Miscellaneous | | | | 153,638 |
| Total General Revenues | | | | 11,216,931 |
| Change in Net Assets | | | | 298,687 |
| <i>Net Assets at Beginning of Year - As Restated (See Note 3)</i> | | | | 7,363,145 |
| Net Assets at End of Year | | | | \$7,661,832 |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2005*

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------------|-------------------------|---------------------------------|---------------------------------|
| <u>Assets:</u> | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$502,412 | \$187,603 | \$991,680 | \$1,681,695 |
| Property Taxes Receivable | 3,461,056 | 560,653 | 566,195 | 4,587,904 |
| Accounts Receivable | 260 | 0 | 0 | 260 |
| Intergovernmental Receivable | 0 | 0 | 211,025 | 211,025 |
| Interfund Receivable | 257,307 | 0 | 0 | 257,307 |
| Inventory Held for Resale | 0 | 0 | 14,794 | 14,794 |
| <u>Restricted Assets:</u> | | | | |
| Equity in Pooled Cash and Cash Equivalents | 82,138 | 0 | 0 | 82,138 |
| <i>Total Assets</i> | <u>\$4,303,173</u> | <u>\$748,256</u> | <u>\$1,783,694</u> | <u>\$6,835,123</u> |
| <u>Liabilities and Fund Balances:</u> | | | | |
| <u>Liabilities:</u> | | | | |
| Accrued Wages and Benefits | \$963,348 | \$0 | \$100,792 | \$1,064,140 |
| Intergovernmental Payable | 264,808 | 0 | 38,517 | 303,325 |
| Interfund Payable | 0 | 0 | 257,307 | 257,307 |
| Deferred Revenue | 3,147,337 | 502,350 | 584,249 | 4,233,936 |
| <i>Total Liabilities</i> | <u>4,375,493</u> | <u>502,350</u> | <u>980,865</u> | <u>5,858,708</u> |
| <u>Fund Balances:</u> | | | | |
| Reserved for Encumbrances | 111,693 | 0 | 184,545 | 296,238 |
| Reserved for Property Taxes | 313,719 | 58,303 | 59,236 | 431,258 |
| Reserved for Set-Asides | 82,138 | 0 | 0 | 82,138 |
| <i>Unreserved, Undesignated, Reported in:</i> | | | | |
| General Fund | (579,870) | 0 | 0 | (579,870) |
| Special Revenue Funds | 0 | 0 | 181,109 | 181,109 |
| Debt Service Fund | 0 | 187,603 | 0 | 187,603 |
| Capital Projects Funds | 0 | 0 | 377,939 | 377,939 |
| <i>Total Fund Balances</i> | <u>(72,320)</u> | <u>245,906</u> | <u>802,829</u> | <u>976,415</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$4,303,173</u> | <u>\$748,256</u> | <u>\$1,783,694</u> | <u>\$6,835,123</u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005*

| | | |
|--|------------------|---------------------------|
| Total Governmental Funds Balances | | \$976,415 |
| <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. | | 13,491,465 |
| Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of: | | |
| Property taxes | 283,567 | |
| Intergovernmental | <u>77,290</u> | |
| Total receivables not reported in funds | | 360,857 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of: | | |
| General obligation bonds | (6,000,059) | |
| Accrued interest | (28,308) | |
| Capital leases | (113,422) | |
| Compensated absences | <u>(887,540)</u> | |
| Total liabilities not reported in funds | | (7,029,329) |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are not included in governmental activities in the statement of net assets. | | <u>(137,576)</u> |
| <i>Net Assets of Governmental Activities</i> | | <u><u>\$7,661,832</u></u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------|--------------------------------|--------------------------------|
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,995,408 | \$472,623 | \$589,126 | \$4,057,157 |
| Intergovernmental | 7,155,436 | 51,777 | 1,167,415 | 8,374,628 |
| Interest | 13,025 | 132 | 192 | 13,349 |
| Tuition and Fees | 314,758 | 0 | 0 | 314,758 |
| Gifts and Donations | 1,000 | 0 | 24,624 | 25,624 |
| Extracurricular Activities | 10,047 | 0 | 256,099 | 266,146 |
| Charges for Services | 0 | 0 | 338,899 | 338,899 |
| Payments in Lieu of Taxes | 506,459 | 0 | 0 | 506,459 |
| Miscellaneous | 129,804 | 0 | 22,834 | 152,638 |
| <i>Total Revenues</i> | <u>11,125,937</u> | <u>524,532</u> | <u>2,399,189</u> | <u>14,049,658</u> |
| <u>Expenditures:</u> | | | | |
| <i>Current:</i> | | | | |
| <i>Instruction:</i> | | | | |
| Regular | 5,491,548 | 0 | 496,583 | 5,988,131 |
| Special | 739,424 | 0 | 226,677 | 966,101 |
| Vocational | 22,984 | 0 | 0 | 22,984 |
| <i>Support Services:</i> | | | | |
| Pupils | 268,129 | 0 | 6,731 | 274,860 |
| Instructional Staff | 728,951 | 0 | 210,447 | 939,398 |
| Board of Education | 100,376 | 0 | 1,622 | 101,998 |
| Administration | 1,073,512 | 0 | 7,006 | 1,080,518 |
| Fiscal | 285,409 | 7,784 | 9,939 | 303,132 |
| Business | 63,705 | 0 | 0 | 63,705 |
| Operation and Maintenance of Plant | 930,512 | 0 | 138,299 | 1,068,811 |
| Pupil Transportation | 943,379 | 0 | 96,577 | 1,039,956 |
| Central | 42,360 | 0 | 24,944 | 67,304 |
| Operation of Non-Instructional Services | 0 | 0 | 603,728 | 603,728 |
| Extracurricular Activities | 176,040 | 0 | 204,733 | 380,773 |
| Capital Outlay | 0 | 0 | 200,116 | 200,116 |
| <i>Debt Service:</i> | | | | |
| Principal Retirement | 72,877 | 200,000 | 0 | 272,877 |
| Interest and Fiscal Charges | 4,516 | 326,990 | 0 | 331,506 |
| <i>Total Expenditures</i> | <u>10,943,722</u> | <u>534,774</u> | <u>2,227,402</u> | <u>13,705,898</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>182,215</u> | <u>(10,242)</u> | <u>171,787</u> | <u>343,760</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers In | 0 | 0 | 234,812 | 234,812 |
| Transfers Out | (234,812) | 0 | 0 | (234,812) |
| <i>Total Other Financing Sources(Uses)</i> | <u>(234,812)</u> | <u>0</u> | <u>234,812</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | (52,597) | (10,242) | 406,599 | 343,760 |
| <i>Fund Balances at Beginning of Year</i> | <u>(19,723)</u> | <u>256,148</u> | <u>396,230</u> | <u>632,655</u> |
| <i>Fund Balances at End of Year</i> | <u>(\$72,320)</u> | <u>\$245,906</u> | <u>\$802,829</u> | <u>\$976,415</u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*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 | \$343,760 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | (608,664) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: | |
| Property taxes | 42,933 |
| Intergovernmental | 47,491 |
| Total revenues not reported in the funds | 90,424 |
| Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 272,877 |
| In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. | (21,292) |
| Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | |
| Compensated absences | (9,133) |
| Intergovernmental payables | 191,970 |
| Total expenditures not reported in the funds | 182,837 |
| The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental expenditures and the related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the activities. | 38,745 |
| <i>Change in Net Assets of Governmental Activities</i> | \$298,687 |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-------------|-------------|---|
| | Original | Final | | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,588,949 | \$3,030,411 | \$3,030,411 | \$0 |
| Intergovernmental | 6,801,319 | 7,155,436 | 7,155,436 | 0 |
| Interest | 8,810 | 11,926 | 13,055 | 1,129 |
| Tuition and Fees | 245,862 | 314,663 | 314,758 | 95 |
| Gifts and Donations | 0 | 1,000 | 1,000 | 0 |
| Extracurricular Activities | 9,989 | 10,047 | 10,047 | 0 |
| Payments in Lieu of Taxes | 520,000 | 506,459 | 506,459 | 0 |
| Miscellaneous | 125,000 | 50,806 | 129,646 | 78,840 |
| <i>Total Revenues</i> | 10,299,929 | 11,080,748 | 11,160,812 | 80,064 |
| <u>Expenditures:</u> | | | | |
| <i>Current:</i> | | | | |
| <i>Instruction:</i> | | | | |
| Regular | 5,492,593 | 5,380,234 | 5,298,025 | 82,209 |
| Special | 1,075,258 | 996,154 | 741,470 | 254,684 |
| Vocational | 10,000 | 22,786 | 22,786 | 0 |
| <i>Support Services:</i> | | | | |
| Pupils | 300,773 | 277,651 | 270,775 | 6,876 |
| Instructional Staff | 625,149 | 738,692 | 728,484 | 10,208 |
| Board of Education | 54,060 | 114,893 | 112,791 | 2,102 |
| Administration | 1,104,783 | 1,154,444 | 1,140,949 | 13,495 |
| Fiscal | 281,427 | 280,323 | 277,064 | 3,259 |
| Business | 31,750 | 65,401 | 63,705 | 1,696 |
| Operation and Maintenance of Plant | 802,275 | 954,958 | 942,199 | 12,759 |
| Pupil Transportation | 928,135 | 953,675 | 946,903 | 6,772 |
| Central | 28,100 | 44,860 | 44,860 | 0 |
| Extracurricular Activities | 130,300 | 176,702 | 174,991 | 1,711 |
| <i>Total Expenditures</i> | 10,864,603 | 11,160,773 | 10,765,002 | 395,771 |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (564,674) | (80,025) | 395,810 | 475,835 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Advances In | 210,000 | 0 | 0 | 0 |
| Advances Out | 0 | (426,130) | (426,130) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | 210,000 | (426,130) | (426,130) | 0 |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | (354,674) | (506,155) | (30,320) | 475,835 |
| <i>Fund Balance at Beginning of Year</i> | 505,486 | 505,486 | 505,486 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | 17,719 | 17,719 | 17,719 | 0 |
| <i>Fund Balance at End of Year</i> | \$168,531 | \$17,050 | \$492,885 | \$475,835 |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2005

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| | <u>Internal Service</u> |
| <u>Assets:</u> | |
| <i>Current Assets:</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$21,161 |
| Cash and Cash Equivalents with Fiscal Agents | 41,007 |
| Intergovernmental Receivable | <u>4,497</u> |
| <i>Total Assets</i> | <u>66,665</u> |
| <u>Liabilities:</u> | |
| <i>Current Liabilities:</i> | |
| Claims Payable | <u>204,241</u> |
| <i>Total Liabilities</i> | <u>204,241</u> |
| <u>Net Assets:</u> | |
| Unrestricted | <u><u>(\$137,576)</u></u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005*

| | Governmental Activities |
|--|----------------------------|
| | Internal Service |
| <u>Operating Revenues:</u> | |
| Charges for Services | \$1,643,032 |
| <u>Operating Expenses:</u> | |
| Claims | 1,476,441 |
| Other | 127,846 |
| <i>Total Operating Expenses</i> | 1,604,287 |
| <i>Change in Net Assets</i> | 38,745 |
| <i>Net Assets at Beginning of Year</i> | (176,321) |
| <i>Net Assets at End of Year</i> | (\$137,576) |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2005

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| | <u>Internal Service</u> |
| <u>Increase (Decrease) in Cash and Cash Equivalents:</u> | |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Interfund Services Provided | \$1,643,032 |
| Cash Payments for Claims | (1,452,874) |
| Other Cash Payments | <u>(143,139)</u> |
| <i>Net Cash from Operating Activities</i> | <u>47,019</u> |
| <i>Net Increase in Cash and Cash Equivalents</i> | 47,019 |
| <i>Cash and Cash Equivalents at Beginning of Year</i> | <u>15,149</u> |
| <i>Cash and Cash Equivalents at End of Year</i> | <u><u>\$62,168</u></u> |
| | |
| <u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u> | |
| Operating Income | \$38,745 |
| | |
| <u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u> | |
| <i>(Increase) Decrease in Assets:</i> | |
| Intergovernmental Receivable | (4,497) |
| <i>Increase (Decrease) in Liabilities:</i> | |
| Intergovernmental Payable | (10,796) |
| Claims Payable | <u>23,567</u> |
| Total Adjustments | <u>8,274</u> |
| <i>Net Cash from Operating Activities</i> | <u><u>\$47,019</u></u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

| | <u>Agency</u> |
|--|------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$42,247</u> |
| <u>Liabilities:</u> | |
| Intergovernmental Payable | 2,674 |
| Due to Students | <u>39,573</u> |
| <i>Total Liabilities</i> | <u><u>\$42,247</u></u> |

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Westfall Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. It is staffed by 64 non-certificated employees, 103 certificated full-time teaching personnel, and 6 administrative employees who provide services to 1,658 students.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Westfall Local School District, this includes general operations, food 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 organization's governing 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 access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District has no component units.

The District is associated with three jointly governed organizations: the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center (COSERRC), and Ross County School Employees Insurance Consortium. The District is also associated with one insurance purchasing pool: Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP). These organizations are presented in Notes 18 and 19 to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

WESTFALL LOCAL SCHOOL DISTRICT

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

The following are the District's two major governmental funds:

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

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health and dental benefits to employees.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

WESTFALL LOCAL SCHOOL DISTRICT

*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

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 balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic reserves measurement focus. All assets and liabilities associated with the operation of this fund is included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenue) and decreases (i.e., expenses) in net total assets.

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, proprietary fund statements, and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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 the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 the fiscal year-end: property taxes available for advance, grants and interest.

WESTFALL LOCAL SCHOOL DISTRICT

*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 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2005, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$13,025, which includes \$8,403 assigned from other District funds.

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 presented on the financial statements as cash equivalents.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption and donated food, purchased food and school supplies held for resale. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed, used or sold.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. As of June 30, 2005, the District had no restricted assets.

H. Capital Assets

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

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 maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

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> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 100 years |
| Improvements | 8 - 20 years |
| Furniture, Fixtures and Equipment | 8 - 20 years |
| Library Books and Textbooks | 5-10 years |
| Vehicles | 10 years |

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable”. These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the District’s termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 10 years of service with the District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Compensated Absences Payable” in the fund from which the employees will be paid.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

K. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements and proprietary fund 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 judgements, compensated absences, special termination of benefits 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 in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

L. Net Assets

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

Net assets restricted for other purposes are primarily from federal and state grants reported in the Special Revenue Funds.

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

M. Fund Balance Reserves

The District reserves those portions of fund balance 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 and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

O. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one 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 to the funds that initially paid for them are not presented on the financial statements. Interfund transactions within governmental activities have been eliminated on the statement of activities.

P. Estimates

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

Q. Budgetary Process

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 3 - PRIOR PERIOD ADJUSTMENTS AND NEW GASB PRONOUNCEMENT

Prior Period Adjustments

During fiscal year 2005, the District changed their capitalization threshold amount from \$500 in 2004 to \$5,000 in 2005. The result for the District was adjustments to the June 30, 2004 balances as follows:

| | <u>Governmental Activities</u> |
|--------------------------------------|------------------------------------|
| Net Assets at June 30, 2004 | \$9,352,845 |
| Adjustments to Capital Assets | <u>(1,989,700)</u> |
| Adjusted Net Assets at June 30, 2004 | <u><u>\$7,363,145</u></u> |

New GASB Pronouncements

For fiscal year 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers." GASB 40 establishes and modifies 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 modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin and GASB Statement No. 40 had no material effect on the District's financial statements.

NOTE 4 - ACCOUNTABILITY

The following funds had a deficit in either their fund balance or net assets as of June 30, 2005:

| | <u>Deficit Fund Balance/ Net Assets</u> |
|--|---|
| General Fund | \$72,320 |
| <i>Nonmajor Special Revenue Funds:</i> | |
| Food Service | 211,022 |
| Management Information System | 1,775 |
| Ohio Reads | 19 |
| Student Intervention | 1,934 |
| IDEA Part B | 20,964 |
| Title I | 1,894 |
| Improving Teacher Quality | 5,325 |
| Internal Service Fund | 137,576 |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 4 - ACCOUNTABILITY - (Continued)

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

| <u>Net Change in Fund Balance</u> | |
|-----------------------------------|--------------------------|
| GAAP Basis | (\$52,597) |
| <i>Adjustments:</i> | |
| Revenue Accruals | 34,875 |
| Expenditure Accruals | 67,027 |
| Encumbrances | 111,693 |
| Other Sources (Uses) | (191,318) |
| Budget Basis | <u><u>(\$30,320)</u></u> |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - 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 has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2005, the District complied with the provisions of these statutes.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 fair 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 fair value 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 (STAROhio);

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$2,039 in undeposited cash on hand which is included on the basic financial statements of the District, as part of the "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a 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.

At June 30, 2005, the carrying amount of all District deposits was \$1,766,392. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2005, \$1,665,297 of the District's bank balance of \$1,785,297 was exposed to custodial risk as discussed above while \$120,000 was covered by Federal Deposit Insurance. The \$1,665,297 exposed to custodial risk was collateralized with securities held by the District or its agency in the District's name.

Investments: As of June 30, 2005, the district had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>6 Months or Less</u> |
|------------------------|-------------------|-------------------------|
| STAROhio | \$99,817 | \$99,817 |
| Totals | \$99,817 | \$99,817 |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by keeping the portfolio sufficiently liquid to enable the school to meet all operating requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio as described in Ohio Revised Code Section 135.143A(2). Investments in STAR Ohio were rated 'AAAm' by Standard & Poor's.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows investments in eligible securities as described in the Ohio Revised Code.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk.

All of the District's investments are either insured and registered in the name of the District or at least registered in the name of the District.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|----------------------|---------------------------------------|-----------------|
| GASB Statement No. 9 | \$1,868,248 | \$0 |
| <i>Investments:</i> | | |
| STAROhio | (99,817) | 99,817 |
| Total | 1,768,431 | 99,817 |
| Petty Cash on Hand | (2,039) | 0 |
| GASB Statement No. 3 | <u>\$1,766,392</u> | <u>\$99,817</u> |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid 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.

The District receives property taxes from Pickaway 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 the tax bills are sent.

Accrued property taxes receivable represents the June 2005 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2005 was \$431,258 and is recognized as revenue. Of this total amount, \$313,719 was available to the General Fund, \$58,303 was available to the Bond Retirement Fund, \$51,764 was available to the Permanent Improvement Nonmajor Capital Projects Fund and \$7,472 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES - (Continued)

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

| | 2004 Second- Half Collections | | 2005 First- Half Collections | |
|---|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$129,505,640 | 84.36% | \$133,864,360 | 84.70% |
| Public Utility Personal | 18,908,940 | 12.32% | 19,891,800 | 12.59% |
| Tangible Personal Property | 5,103,954 | 3.32% | 4,282,764 | 2.71% |
| Total Assessed Value | <u>\$153,518,534</u> | <u>100.00%</u> | <u>\$158,038,924</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$34.85 | | \$38.05 | |

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of property taxes, accounts (student fees), interfund, interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivable follows:

| <u>Governmental Activities:</u> | |
|--|------------------|
| <i>Nonmajor Special Revenue Funds:</i> | |
| Food Service | \$21,269 |
| Student Intervention | 4,020 |
| IDEA Part B | 96,054 |
| Title I | 61,250 |
| Title V | 234 |
| Drug Free Schools | 6,836 |
| Preschool Grant | 8,330 |
| Improving Teacher Quality | 12,746 |
| Miscellaneous Federal Grant | 286 |
| Total Nonmajor Special Revenue Funds | <u>211,025</u> |
| Internal Service Fund | <u>4,497</u> |
| Total Intergovernmental Receivable | <u>\$215,522</u> |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

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

| <u>Asset Category</u> | <u>Restated Balance at July 1, 2004</u> | <u>Transfers/ Additions</u> | <u>Transfers/ Deletions</u> | <u>Balance at June 30, 2005</u> |
|---------------------------------------|---|---------------------------------|---------------------------------|-------------------------------------|
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$105,604 | \$0 | \$0 | \$105,604 |
| <i>Depreciable Capital Assets:</i> | | | | |
| Land Improvements | 1,681,405 | 55,823 | 0 | 1,737,228 |
| Buildings and Improvements | 15,253,113 | 22,839 | 0 | 15,275,952 |
| Furniture, Fixtures and Equipment | 425,206 | 0 | 0 | 425,206 |
| Vehicles | 1,308,993 | 112,000 | 0 | 1,420,993 |
| Library Books and Text Books | 892,299 | 0 | 0 | 892,299 |
| Total Depreciable Capital Assets | <u>19,561,016</u> | <u>190,662</u> | <u>0</u> | <u>19,751,678</u> |
| Total Capital Assets | <u>19,666,620</u> | <u>190,662</u> | <u>0</u> | <u>19,857,282</u> |
| <i>Accumulated Depreciation:</i> | | | | |
| Land Improvements | (550,243) | (70,986) | 0 | (621,229) |
| Buildings and Improvements | (3,497,785) | (420,839) | 0 | (3,918,624) |
| Furniture, Fixtures and Equipment | (195,440) | (33,893) | 0 | (229,333) |
| Vehicles | (799,410) | (124,892) | 0 | (924,302) |
| Library Books and Text Books | (523,613) | (148,916) | 0 | (672,329) |
| Total Accumulated Depreciation | <u>(5,566,491)</u> | <u>(799,326)</u> | <u>0</u> | <u>(6,365,817)</u> |
| Total Net Capital Assets | <u><u>\$14,100,129</u></u> | <u><u>(\$608,664)</u></u> | <u><u>\$0</u></u> | <u><u>\$13,491,465</u></u> |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

| | |
|---|-------------------------|
| <i>Instruction:</i> | |
| Regular | \$342,145 |
| Special | 49,204 |
| <i>Support Services:</i> | |
| Pupils | 11,577 |
| Instructional Staff | 162,763 |
| Administration | 36,874 |
| Fiscal | 2,894 |
| Operation and Maintenance of Plant | 20,986 |
| Pupil Transportation | 124,892 |
| Operation of Non-Instructional Services | 40,748 |
| Extracurricular Activities | 7,243 |
| | <hr/> |
| Total Depreciation Expense | <u><u>\$799,326</u></u> |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the District contracted with various commercial carriers for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

| | |
|--|--------------|
| Building and Contents replacement cost (\$5,000) | \$27,947,418 |
| Musical Instruments (\$1,000 deductible) | 191,671 |
| Automobile Liability (\$0 deductible) | 2,000,000 |
| General Liability: | |
| Per Occurrence (\$0 deductible) | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| Public Officials Bonds: | |
| Treasurer | 40,000 |
| Superintendent/Board President (each) | 10,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

For fiscal year 2005, the District participated in the Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). 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 percentage 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to the consortium's fiscal agent, Ross County School Employees Insurance Consortium (RCSEIC), out of the District's Self-Insurance Internal Service Fund. Klais and Company, a third party administrator, services all health claims submitted by employees. Professional Risk Management, Inc. a third party administrator, services all dental claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$204,241 reported at June 30, 2005 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Balance at Beginning of Year</u> | <u>Current Year Claims</u> | <u>Claims Payments</u> | <u>Balance at End of Year</u> |
|--------------------|---|--------------------------------|------------------------|-----------------------------------|
| 2004 | \$251,957 | \$1,404,074 | \$1,475,357 | \$180,674 |
| 2005 | 180,674 | 1,476,441 | 1,452,874 | 204,241 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent 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 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$158,231, \$188,519, and \$238,944, respectively; 59.66 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$63,833 representing the unpaid contribution for fiscal year 2005, is recorded as a liability within the financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. 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 of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally in a biweekly basis. 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.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) time the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Plan benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investments account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, which comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly medicare Part B premiums. By Ohio law health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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, 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% employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$669,437, \$692,751 and \$823,128, respectively; 83.35% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$111,484 represents the unpaid contribution for fiscal year 2005.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, two members of the Board of Education have elected Social Security.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certificated employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS 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. All benefit recipients pay a portion of health care cost in the form of a monthly premium. The Revised Code grants authority to STRS to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the average paid from STRS Ohio funds shall be included in the employer contribution rate, currently 1% of covered payroll.

The State Teachers Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005, and June 30, 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$51,497 during fiscal year 2005. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit participants.

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contributions is allocated to providing health care benefits. At June 30, 2005, the health care allocation is 14%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$25,400. This 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement Systems' net assets available for payment of health care benefits were \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000. For the District, the amount to fund health care benefits, including surcharge, equaled \$110,245 during the 2005 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for aides and all other classified employees, and for certified employees. Upon retirement, payment is made for 28% of accrued, but unused sick leave credit up to a maximum of 180 days for all employees.

Health, Prescription Drug and Dental Insurance

In July 1994, the District joined the Ross County School Employees Insurance Consortium (RCSEIC) to self insure its medical claims. RCSEIC currently includes 16 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent.

Klais and Company, a third party administrator, services all health/medical claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$100,000 and aggregate claims in excess of \$280.50 per month, per employee consortium wide.

Professional Risk Management, Inc., a third party administrator, services all dental claims submitted by employees.

NOTE 14 - LONG-TERM LIABILITIES

The changes in the District's long-term obligations during fiscal year 2005 were as follows:

| | Principal Outstanding at July 1, 2004 | Additions | Deductions | Principal Outstanding at June 30, 2005 | Amount Due In One Year |
|---|---|-----------|------------|--|------------------------------|
| <u>Governmental Activities:</u> | | | | | |
| General Obligation Bonds: | | | | | |
| 2000 School Facilities Construction | | | | | |
| 4.60 - 13.01% | | | | | |
| Serial Bonds | \$2,720,000 | \$0 | \$200,000 | \$2,520,000 | \$210,000 |
| Term Bonds | 3,060,000 | 0 | 0 | 3,060,000 | 0 |
| Capital Appreciation Bonds | 397,863 | 22,196 | 0 | 420,059 | 0 |
| Total 2000 School Facilities Construction | 6,177,863 | 22,196 | 200,000 | 6,000,059 | 210,000 |
| Capital Leases | 186,299 | 0 | 72,877 | 113,422 | 75,056 |
| Compensated Absences | 892,522 | 241,974 | 246,956 | 887,540 | 69,579 |
| Total Governmental Activities Long-Term Obligations | \$7,256,684 | \$264,170 | \$519,833 | \$7,001,021 | \$354,635 |

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

2000 School Facilities Construction & Improvement Bonds - On November 2, 1999, the District issued \$6,505,730 in voted general obligation bonds. The bond issue included serial, term and capital appreciation bonds in the amount of \$3,275,000, \$3,060,000 and \$170,732, respectively. The serial bonds will be paid from 2001 - 2008 and then 2011 - 2016; the term bonds will be paid during 2023; and the capital appreciation bonds will be paid from 2009 - 2010.

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, from 2016 through 2021 (with a balance of \$515,000 to be paid at the stated maturity on December 2022) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------|
| 2017 | \$365,000 |
| 2018 | 385,000 |
| 2019 | 410,000 |
| 2020 | 435,000 |
| 2021 | 460,000 |
| 2022 | 490,000 |

Current serial bonds redeemed by other than mandatory redemption, or purchased for cancellation, may be credited against the applicable mandatory redemption requirement.

The term bonds maturing on December 1, 2022, are subject to optional redemption by and at the sole option of the District, either in whole or in part (as selected by the District), on any date commencing after December 1, 2010, and in integral multiples of \$1,000, at the following redemption price (expressed as percentage of the principal amount redeemed), plus accrued interest to the redemption date:

| <u>Redemption dates (Dates Inclusive)</u> | <u>Redemption Prices</u> |
|---|------------------------------|
| June 1, 2010 and thereafter | 100% |

The capital appreciation bonds will mature in the years ending June 30, 2009 through 2010. The maturity amount of the bonds is \$530,000. For fiscal year 2005, \$22,196 was accreted for a total bond value of \$420,059.

The general obligation bonds will be paid from the Bond Retirement Fund. The capital lease will be paid from the General Fund. Compensated absences will be paid from the fund from which the employee is paid.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

| <u>Fiscal Year Ending June 30</u> | <u>Serial Bonds Principal</u> | <u>Serial Bonds Interest</u> | <u>Term Bonds Principal</u> | <u>Term Bonds Interest</u> | <u>Capital Appreciation</u> |
|---------------------------------------|-----------------------------------|----------------------------------|---------------------------------|--------------------------------|---------------------------------|
| 2006 | \$210,000 | 316,380 | \$0 | \$0 | \$0 |
| 2007 | 240,000 | 304,620 | 0 | 0 | 0 |
| 2008 | 250,000 | 291,695 | 0 | 0 | 0 |
| 2009 | 0 | 0 | 0 | 0 | 265,000 |
| 2010 | 0 | 0 | 0 | 0 | 265,000 |
| 2011 - 2015 | 1,475,000 | 1,230,902 | 0 | 0 | 0 |
| 2016 - 2023 | 345,000 | 193,433 | 3,060,000 | 685,200 | 0 |
| Total | <u>\$2,520,000</u> | <u>\$2,337,030</u> | <u>\$3,060,000</u> | <u>\$685,200</u> | <u>\$530,000</u> |

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 voted debt margin of \$8,245,640 and an unvoted debt margin of \$158,039.

NOTE 15 - CAPITAL LEASES

The District has entered into an agreement to lease fitness equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. The capital leased asset, consisting of fitness equipment, has been capitalized in the amount of \$221,940 in the governmental activities, which represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2005 were \$72,877 in the governmental funds.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 15 - CAPITAL LEASES - (Continued)

The District's future minimum lease payments and present value of net minimum lease payments required under these capital lease obligations as of June 30, 2005 are as follows:

| Year Ended December 31, | Capital Lease Payments |
|---|---------------------------|
| 2006 | \$77,393 |
| 2007 | 38,696 |
| Total Future Minimum Lease Payments | 116,089 |
| Less: Amount Representing Interest | (2,667) |
| Present Value of Net Minimum Lease Payments | <u>\$113,422</u> |

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2005, receivables and payables that resulted from various interfund transactions were as follows:

| Fund | Interfund Receivable | Interfund Payable |
|--|-------------------------|----------------------|
| General Fund | \$257,307 | \$0 |
| <i>Nonmajor Special Revenue Funds:</i> | | |
| Food Service | 0 | 210,000 |
| Student Intervention | 0 | 305 |
| IDEA Part B | 0 | 26,682 |
| Title I | 0 | 15,087 |
| Drug Free Schools | 0 | 555 |
| Improving Teacher Quality | 0 | 4,678 |
| Total Nonmajor Special Revenue Funds | <u>0</u> | <u>257,307</u> |
| Total | <u>\$257,307</u> | <u>\$257,307</u> |

All the interfund balances resulted from the time lag between the dates that loans between funds are received and payments between funds are made.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 - INTERFUND ACTIVITY - (Continued)

During fiscal year ended June 30, 2005, the District's interfund transfers were as follows:

| Fund | Transfers To | Transfers From |
|--|------------------|-------------------|
| General Fund | \$0 | \$234,812 |
| <i>Nonmajor Special Revenue Funds:</i> | | |
| Food Service | 5,000 | 0 |
| Public School Support | 23,145 | 0 |
| EMIS | 7,785 | 0 |
| Total Nonmajor Special Revenue Funds | 35,930 | 0 |
| <i>Nonmajor Capital Projects Fund:</i> | | |
| Classroom Facilities Construction | 198,882 | 0 |
| Total | <u>\$234,812</u> | <u>\$234,812</u> |

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

During fiscal year 2005, the District made a transfer from the General Fund of \$198,882 to the Classroom Facilities Construction Nonmajor Capital Projects Fund to subsidize operations in that fund. Other fund transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 17 - STATUTORY SET-ASIDES

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

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Totals</u> |
|---|------------------|--------------------------------|------------------|
| Set-Aside Reserve Balance as of June 30, 2004 | \$15,531 | \$0 | \$15,531 |
| Current Year Set-Aside Requirement | 211,828 | 211,828 | 423,656 |
| Qualifying Disbursements | (145,221) | (399,512) | (544,733) |
| Totals | <u>82,138</u> | <u>(187,684)</u> | <u>(105,546)</u> |
| Set-Aside Reserve Balance as of June 30, 2005 | <u>\$82,138</u> | <u>\$0</u> | <u>\$82,138</u> |
| Total Restricted Assets | | | <u>\$0</u> |

The District had qualifying disbursements and offsets during the fiscal year that reduced the capital acquisition set-aside amounts below zero. Actual cash balances in excess of set-aside requirements for capital acquisition may be used to offset set-aside requirements of future years since monies are obtained from a permanent improvement levy.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (MEC)

Metropolitan Educational Council, is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District. During 2005, the District paid \$23,007 to MEC.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Ross County School Employees Insurance Consortium (RCSEIC)

The District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. Medical/surgical insurance is administered through a third party administrator, Klais and Company. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

Central Ohio Special Education Regional Resource Center (COSERRC)

The Central Ohio Special Education Regional Resource Center is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in central Ohio which comprise sixty percent of the Board, two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Developmental Disabilities, representatives of universities and students and persons with disabilities representations. COSERRC assists the District in complying with mandates of Public Law 99-456 for educating children with disabilities. There is no financial commitment made by the districts involved with COSERRC. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERRC.

NOTE 19 - INSURANCE PURCHASING POOL

Shakley Unservile Inc. Worker's Compensation Group Rating Plan

The District participates in a Worker's Compensation Group Rating Program (GRP), and insurance purchasing pool with the Shakley Company. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 21 - 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 on its financial operations.

Westfall Local School District
Pickaway 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 | \$ - | \$ 81,379 | \$ - | \$ 81,379 |
| National School Breakfast Program | O5PU | 10.553 | 10,827 | - | 10,827 | - |
| National School Lunch Program | LLP4 | 10.555 | 138,322 | - | 138,322 | - |
| Total United States Department of Agriculture - Nutrition Cluster | | | 149,149 | 81,379 | 149,149 | 81,379 |
| United States Department of Education | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Title 1 Grants to Local Education Agencies | C1S1 | 84.010 | 268,246 | - | 302,350 | - |
| <i>Special Education Cluster</i> | | | | | | |
| Special Education - Grants to States | 6BSF | 84.027 | 390,890 | - | 365,880 | - |
| Special Education - Preschool Grants | PGS1 | 84.173 | 926 | - | 94 | - |
| <i>Total Special Education Cluster</i> | | | 391,816 | - | 365,974 | - |
| <i>Safe and Drug-Free Schools and Communities -</i> | | | | | | |
| State Grants | DRS1 | 84.186 | 11,564 | - | 4,172 | - |
| State Grants for Innovative Programs | C2S1 | 84.298 | 6,787 | - | 6,220 | - |
| Education Technology State Grants | TJS1 | 84.318 | 9,172 | - | 8,226 | - |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | 66,630 | - | 76,770 | - |
| Total United States Department of Education | | | 754,215 | - | 763,712 | - |
| Total Federal Financial Assistance | | | \$ 903,364 | \$ 81,379 | \$ 912,861 | \$ 81,379 |

NA - Not Available

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE 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 Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

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

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

BALESTRA, HARR & SCHERER CPAs, INC.

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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
Westfall Local School District
19463 Pherson Pike
Williamsport, OH 43164

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Westfall Local School District (the District), Pickaway 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, and have issued our report thereon dated February 10, 2006, 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.

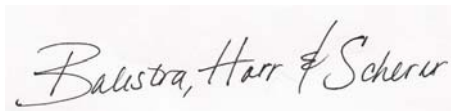
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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 that is required to be reported under *Government Auditing Standards*.

Members of the Board
Westfall Local 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

We also noted certain matters that we reported to the management of the District in a separate letter dated February 10, 2006.

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.

February 10, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Westfall Local School District
19463 Pherson Pike
Williamsport, OH 43164

Compliance

We have audited the compliance of Westfall Local 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 each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each of its major federal programs for the year ended June 30, 2005.

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 internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, 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 solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

February 10, 2006

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under .510? | No |
| <i>(d)(1)(vii)</i> | Major Program (list): | Special Education Cluster CFDA # 84.027 & 84.173; Title I Grants to Local Education Agencies CFDA # 84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2005
(Continued)**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|---|------------------|--|
| 2004-001 | Segregation of Duties-Charges for Services-Food Service | No | See current year Management Letter comment. |
| 2004-002 | ORC Section 5705.39 – the District had total fund appropriations that exceeded total estimated revenue. | Yes | Corrected |
| 2004-003 | ORC Section 5705.41(B) – The District had expenditures exceeding appropriations. | Yes | Corrected |
| 2004-004 | OMB Circular A-87 – The District made adjustments to Title I costs without adequate support resulting in questioned costs of \$24,535 | No | Partially Corrected – The District made no cost adjustments in the current period and is working with the Pass-Through Agency to support the prior year adjustments and clear the questioned costs. |
| 2004-005 | 34 CFR 80.23 and ORC Section 131.33 – The District expended Title 1 funds after the period of availability resulting in questioned costs of \$57,185. | No | Partially Corrected – The District expended all of its Title I funds within the available period for the current year award and is working with the Pass-Through Agency to support the prior year expenditures and clear the questioned costs. |
| 2004-006 | 34 CFR 80.30 (a) and (c)(1)(ii) – The District exceeded line items in the approved budget by more than 10%. | Yes | Corrected |



**Auditor of State
Betty Montgomery**

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WESTFALL LOCAL SCHOOL DISTRICT

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**