



**Auditor of State  
Betty Montgomery**



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

West Liberty-Salem Local School District  
Champaign County  
7208 North US Route 68  
West Liberty, Ohio 43357-9674

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Liberty-Salem Local School District, Champaign County, (the "District"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

January 25, 2005

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

The discussion and analysis of the West Liberty-Salem Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$243,233 which represents a 4.20% decrease from 2003.
- General revenues accounted for \$8,941,453 in revenue or 88.81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,127,045 or 11.19% of total revenues of \$10,068,498.
- The District had \$10,311,731 in expenses related to governmental activities; \$1,127,045 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,941,453 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the classroom facilities fund. The general fund had \$8,840,563 in revenues and \$8,726,836 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$97,128 from \$644,517 to \$741,645.
- The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$11,228 in revenues and \$10,509 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$719 from \$531,252 to \$531,971.

**Using the Basic Financial Statements**

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

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Reporting the District as a Whole**

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

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

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

**Fund Financial Statements**

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

**Governmental Funds**

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



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-48 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	<b>Net Assets</b>
	<b>Governmental Activities</b>
	<b><u>2004</u></b>
<b><u>Assets</u></b>	
Current and other assets	\$5,013,334
Capital assets, net	<u>5,249,331</u>
Total assets	<u>10,262,665</u>
<b><u>Liabilities</u></b>	
Current liabilities	3,284,677
Long-term liabilities	<u>1,431,496</u>
Total liabilities	<u>4,716,173</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	4,352,906
Restricted	817,371
Unrestricted	<u>376,215</u>
Total net assets	<u>\$5,546,492</u>

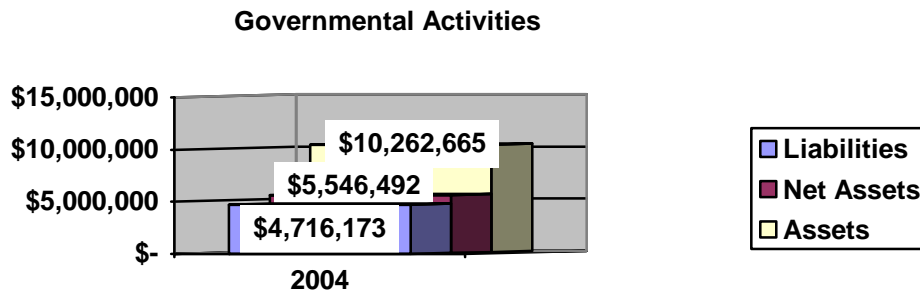
**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$5,546,492. Of this total, \$376,215 is unrestricted.

At year-end, capital assets represented 51.15% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$4,352,906. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$817,371, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$376,215 may be used to meet the District's ongoing obligations to the students and creditors. The graph below illustrates the District's assets, liabilities and net assets as reported on the Statement of Net Assets at June 30, 2004:



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

	<b>Change in Net Assets</b>
	<b>Governmental Activities 2004</b>
<u>Revenues</u>	<hr/>
Program revenues:	
Charges for services and sales	\$672,355
Operating grants and contributions	423,109
Capital grants and contributions	31,581
General revenues:	
Property taxes	2,145,383
Income taxes	1,391,506
Grants and entitlements	5,310,324
Investment earnings	43,214
Other	51,026
	<hr/>
Total revenues	<u>10,068,498</u>

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	Change in Net Assets
	Governmental Activities 2004
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$4,320,074
Special	995,857
Vocational	169,714
Other	371,133
Support services:	
Pupil	445,307
Instructional staff	474,772
Board of education	48,693
Administration	748,866
Fiscal	272,546
Operations and maintenance	813,413
Pupil transportation	638,730
Central	173,188
Operation of non-instructional services:	
Food service operations	402,306
Other non-instructional services	11,671
Extracurricular activities	359,664
Interest and fiscal charges	65,797
	10,311,731
Total expenses	10,311,731
Decrease in net assets	(\$243,233)

**Governmental Activities**

Net assets of the District's governmental activities decreased \$243,233. Total governmental expenses of \$10,311,731 were offset by program revenues of \$1,127,045 and general revenues of \$8,941,453. Program revenues supported 10.93% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 87.87% of total governmental revenue.

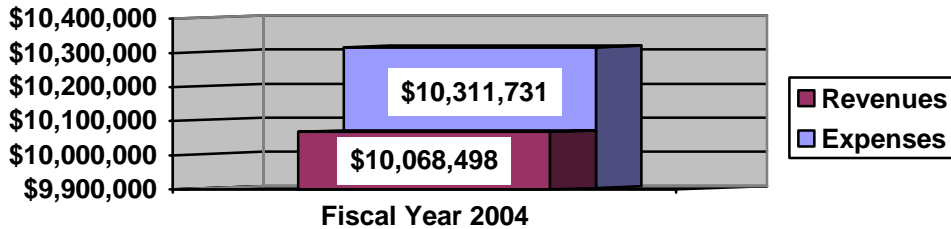
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,856,778 or 56.80% of total governmental expenses for fiscal 2004.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

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

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

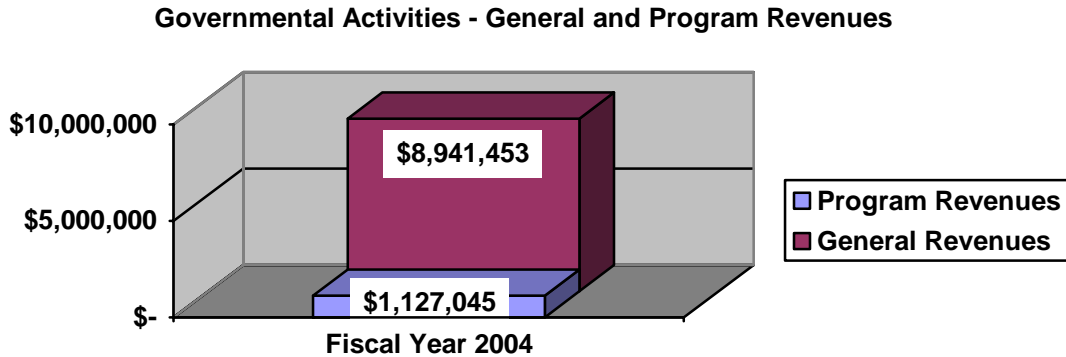
	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
<b>Program expenses</b>		
Instruction:		
Regular	\$4,320,074	\$4,099,386
Special	995,857	846,856
Vocational	169,714	169,714
Other	371,133	371,133
Support services:		
Pupil	445,307	336,977
Instructional staff	474,772	465,747
Board of education	48,693	48,693
Administration	748,866	720,537
Fiscal	272,546	272,546
Operations and maintenance	813,413	804,157
Pupil transportation	638,730	628,373
Central	173,188	173,188
Operation of non-instructional services:		
Food service operations	402,306	(28,001)
Other non-instructional services	11,671	(106)
Extracurricular activities	359,664	209,689
Interest and fiscal charges	65,797	65,797
<b>Total expenses</b>	<u><u>\$10,311,731</u></u>	<u><u>\$9,184,686</u></u>

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 93.69% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.07%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,653,774, which is higher than last year's total of \$1,528,006. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<b>Fund Balance June 30, 2004</b>	<b>Restated Fund Balance June 30, 2003</b>	<b>Increase</b>	<b>Percentage Change</b>
General	\$741,645	\$644,517	\$97,128	15.07 %
Classroom Facilities	531,971	531,252	719	0.14 %
Other Governmental	380,158	352,237	27,921	7.93 %
<b>Total</b>	<b>\$1,653,774</b>	<b>\$1,528,006</b>	<b>\$125,768</b>	<b>8.23 %</b>

**General Fund**

The District's general fund's fund balance increased by \$97,128 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and decreased expenditures. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$3,376,471	\$3,260,739	\$115,732	3.55 %
Earnings on investments	31,035	53,756	(22,721)	(42.27) %
Intergovernmental	5,288,660	5,177,336	111,324	2.15 %
Other revenues	<u>144,397</u>	<u>64,069</u>	<u>80,328</u>	125.38 %
Total	<u><u>8,840,563</u></u>	<u><u>8,555,900</u></u>	<u><u>284,663</u></u>	3.33 %
<b><u>Expenditures</u></b>				
Instruction	5,233,489	5,082,824	150,665	2.96 %
Support services	3,233,002	3,505,634	(272,632)	(7.78) %
Extracurricular activities	206,894	209,777	(2,883)	(1.37) %
Debt service	<u>53,451</u>	<u>53,451</u>	<u>53,451</u>	100.00 %
Total	<u><u>\$8,726,836</u></u>	<u><u>\$8,798,235</u></u>	<u><u>(\$71,399)</u></u>	(0.81) %

**Classroom Facilities Fund**

The classroom facilities fund had \$11,228 in revenues and \$10,509 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$719 from \$531,252 to \$531,971.

**General Fund Budgeting Highlights**

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,610,349 and final budgeted revenues and other financing sources were \$8,747,974. Actual revenues and other financing sources for fiscal 2004 was \$8,815,552. This represents a \$67,578 increase over final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$8,909,824. The actual budget basis expenditures for fiscal year 2004 totaled \$8,730,452, which is \$179,372 less than the final budgeted appropriations.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2004, the District had \$5,249,331 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
Land	\$252,710	\$252,710
Land improvements	131,624	159,305
Building and improvements	4,408,525	4,716,389
Furniture and equipment	164,336	191,744
Vehicles	244,350	312,144
Construction in progress	47,786	47,786
Total	<u>\$5,249,331</u>	<u>\$5,680,078</u>

The overall decrease in capital assets of \$430,747 is due to disposals of \$2,911 (net of accumulated depreciation) and depreciation expense of \$427,836 in the fiscal year.

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

**Debt Administration**

At June 30, 2004, the District had \$840,000 in general obligation bonds and \$56,425 in a lease purchase agreement outstanding. Of this total, \$191,987 is due within one year and \$704,438 is due within greater than one year. The following table summarizes the bonds and lease purchase obligation outstanding.

**Outstanding Debt, at Year End**

	<b>Governmental Activities 2004</b>	<b>Governmental Activities 2003</b>
	General obligation bonds	\$840,000
Lease purchase agreement	56,425	106,147
Total	<u>\$896,425</u>	<u>\$1,086,147</u>

At June 30, 2004, the District's overall legal debt margin was \$8,899,218, and an unvoted debt margin of \$97,405.

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**Current Financial Related Activities**

This District, like most other districts, faces many challenges in the years to come. As the preceding information shows, the District relies heavily upon Real Estate Property taxes, Income taxes (1/2% continuing and 1% for a three-year term) and Unrestricted State Aid. These three areas of revenue accounted for 98% of the General Fund Revenue in fiscal year 2004 with Unrestricted State Aid providing the largest percentage of the three. Locally the District has very little industry within the school district boundaries, which makes the Income tax and the Real Estate Property tax even more vital to the school's operation and existence. Fortunately the voters of the district have been very supportive and recently renewed the 1% income tax for another three year period beginning in January 2005. The continued renewal of this 1% will remain a high priority for the future of this district.

In an effort to reduce cost during fiscal year 2004 the District cut expenses in the Supply and Material area by 25% and in the Capital Outlay area by 80%. These reductions, as well as the settlement of a delinquent tax payment, the Board of Education approval of Open Enrollment students into the district and additional grant dollars that were applied to qualified expenses allowed the district operating revenues to exceed operating expenses for the year. This is the first time this has happened since fiscal year 2000. However, due to HB412, and additional district spending requirements, spending in Supply and Material, and Capital Outlay have been increased for fiscal year 2005 to a level similar to what was being spent prior to last year reductions.

Since the District relies on the State for approximately 58% of the general operating revenues, one of the largest challenges facing the district, is state funding which the district has very little control over. A new state budget is required for fiscal year 2006 and 2007 and the State Board of Education is in the process of preparing its proposal. In addition the Blue Ribbon Task Force, as assigned by the Governor, and some members of the House and Senate are preparing their own recommendations and proposals. These recommendations and proposals will all be considered and acted on later this spring and summer with the anticipated result, at this time, being a huge unknown.

In conclusion the Board of Education, the Administration, all staff, and the parents continue to look at ways of controlling cost, meeting the financial needs and challenges of the district, and most importantly providing a quality education for all of the students located at West Liberty-Salem Local School.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Steven Godwin, Treasurer, West Liberty-Salem Local School District, 7208 N. Route 68, West Liberty, Ohio 43357-9674.



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2004**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$1,715,930
Investments	450,000
Receivables:	
Taxes	2,798,542
Intergovernmental	19,285
Accrued interest	288
Prepayments	7,567
Materials and supplies inventory	21,722
Capital assets:	
Land	252,710
Construction in progress	47,786
Depreciable capital assets, net	4,948,835
Total capital assets, net	5,249,331
Total assets	10,262,665
<b>Liabilities:</b>	
Accounts payable	108,868
Accrued wages and benefits	883,487
Pension obligation payable	219,558
Intergovernmental payable	64,264
Deferred revenue	1,974,846
Accrued interest payable	33,654
Long-term liabilities:	
Due within one year	279,292
Due within more than one year	1,152,204
Total liabilities	4,716,173
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	4,352,906
Restricted for:	
Capital projects	587,339
Debt service	113,295
Other purposes	116,737
Unrestricted	376,215
Total net assets	\$5,546,492

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
					<u>Governmental Activities</u>
<b>Governmental activities:</b>					
Instruction:					
Regular	\$4,320,074	\$180,000	\$14,132	\$26,556	(\$4,099,386)
Special	995,857		149,001		(846,856)
Vocational	169,714				(169,714)
Other	371,133				(371,133)
Support services:					
Pupil	445,307		108,330		(336,977)
Instructional staff	474,772		9,025		(465,747)
Board of education	48,693				(48,693)
Administration	748,866		28,329		(720,537)
Fiscal	272,546				(272,546)
Operations and maintenance	813,413		4,231	5,025	(804,157)
Pupil transportation	638,730		10,357		(628,373)
Central	173,188				(173,188)
Operation of non-instructional services:					
Food service operations	402,306	342,380	87,927		28,001
Other non-instructional services	11,671		11,777		106
Extracurricular activities	359,664	149,975			(209,689)
Interest and fiscal charges	65,797				(65,797)
<b>Total governmental activities</b>	<b>\$10,311,731</b>	<b>\$672,355</b>	<b>\$423,109</b>	<b>\$31,581</b>	<b>(\$9,184,686)</b>

**General Revenues:**

Property taxes levied for:	
General purposes	1,876,647
Special revenue	39,691
Debt service	180,511
Capital projects	48,534
Income taxes levied for:	
General purposes	1,391,506
Grants and entitlements not restricted to specific programs	5,310,324
Investment earnings	43,214
Miscellaneous	51,026
<b>Total general revenues</b>	<b>8,941,453</b>
Change in net assets	(243,233)
Net assets at beginning of year (restated)	5,789,725
Net assets at end of year	<b>\$5,546,492</b>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2004**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$738,003	\$532,264	\$398,234	\$1,668,501
Investments	450,000			450,000
Receivables:				
Taxes	2,513,366		285,176	2,798,542
Intergovernmental			19,285	19,285
Accrued interest	288			288
Prepayments	7,567			7,567
Materials and supplies inventory	11,983		9,739	21,722
Restricted assets:				
Equity in pooled cash and cash equivalents	47,429			47,429
<b>Total assets</b>	<u><u>3,768,636</u></u>	<u><u>532,264</u></u>	<u><u>712,434</u></u>	<u><u>5,013,334</u></u>
<b>Liabilities:</b>				
Accounts payable	100,462	293	8,113	108,868
Accrued wages and benefits	836,229		47,258	883,487
Compensated absences payable	56,385			56,385
Pension obligation payable	122,924		3,728	126,652
Intergovernmental payable	54,215		10,049	64,264
Deferred revenue	1,856,776		263,128	2,119,904
<b>Total liabilities</b>	<u><u>3,026,991</u></u>	<u><u>293</u></u>	<u><u>332,276</u></u>	<u><u>3,359,560</u></u>
<b>Fund Balances:</b>				
Reserved for encumbrances	17,190	6,296	42,111	65,597
Reserved for materials and supplies inventory	11,983		9,739	21,722
Reserved for prepayments	7,567			7,567
Reserved for debt service			115,428	115,428
Reserved for property tax unavailable for appropriation	151,233		22,048	173,281
Reserved for BWC refunds	47,429			47,429
Unreserved:				
Designation for WLS building project OSFC expedited program		525,675		525,675
Designation for Capital Maintenance	175,700			175,700
Undesignated, reported in:				
General fund	330,543			330,543
Special revenue funds			164,555	164,555
Capital projects funds			26,277	26,277
<b>Total fund balances</b>	<u><u>741,645</u></u>	<u><u>531,971</u></u>	<u><u>380,158</u></u>	<u><u>1,653,774</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$3,768,636</u></u>	<u><u>\$532,264</u></u>	<u><u>\$712,434</u></u>	<u><u>\$5,013,334</u></u>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Total governmental fund balances</b>		<b>\$1,653,774</b>
<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.		5,249,331
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	<u>\$145,058</u>	
Total		145,058
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	478,686	
Pension obligation payable	92,906	
General obligation bonds payable	840,000	
Lease purchase agreement	56,425	
Accrued interest payable	<u>33,654</u>	
Total		<u>(1,501,671)</u>
<b>Net assets of governmental activities</b>		<b><u><u>\$5,546,492</u></u></b>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes	\$3,376,471		\$286,663	\$3,663,134
Tuition	123,168			123,168
Earnings on investments	31,035	11,228	951	43,214
Charges for services			399,194	399,194
Extracurricular			149,045	149,045
Classroom materials and fees			948	948
Other local revenues	21,229		29,797	51,026
Intergovernmental - state	5,288,660		114,249	5,402,909
Intergovernmental - federal			362,105	362,105
<b>Total revenue</b>	<u>8,840,563</u>	<u>11,228</u>	<u>1,342,952</u>	<u>10,194,743</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,912,322		132,469	4,044,791
Special	823,785		153,115	976,900
Vocational	140,372			140,372
Other	357,010			357,010
Support services:				
Pupil	311,866		118,196	430,062
Instructional staff	453,072		13,076	466,148
Board of education	47,433			47,433
Administration	731,301		29,767	761,068
Fiscal	262,664		7,012	269,676
Operations and maintenance	732,698		74,231	806,929
Pupil transportation	547,135		11,025	558,160
Central	146,833			146,833
Operation of non-instructional services:				
Food service operations			403,359	403,359
Other non-instructional services			11,671	11,671
Extracurricular activities	206,894		147,895	354,789
Facilities acquisition and construction		10,509	4,965	15,474
Debt service:				
Principal retirement	49,722		140,000	189,722
Interest and fiscal charges	3,729		68,250	71,979
<b>Total expenditures</b>	<u>8,726,836</u>	<u>10,509</u>	<u>1,315,031</u>	<u>10,052,376</u>
<b>Net change in fund balances</b>	113,727	719	27,921	142,367
Fund balances at beginning of year (restated)	644,517	531,252	352,237	1,528,006
Decrease in reserve for inventory	(16,599)			(16,599)
<b>Fund balances at end of year</b>	<u>\$741,645</u>	<u>\$531,971</u>	<u>\$380,158</u>	<u>\$1,653,774</u>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$142,367</b>
<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 capital outlay (\$0) exceeds depreciation expense (\$427,836) in the current period.	(427,836)
The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets.	(2,911)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.	(16,599)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(126,245)
Repayment of bond and lease purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	189,722
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	6,182
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(7,913)</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>(\$243,233)</u></u></b>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes	\$3,267,770	\$3,320,001	\$3,351,277	\$31,276
Tuition	132,194	134,307	123,168	(11,139)
Earnings on investments	63,977	65,000	31,127	(33,873)
Other local revenues	32,752	33,275	19,255	(14,020)
Intergovernmental - state	5,103,814	5,185,391	5,288,660	103,269
Total revenue	<u>8,600,507</u>	<u>8,737,974</u>	<u>8,813,487</u>	<u>75,513</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,916,773	3,917,323	3,901,950	15,373
Special	946,483	900,183	826,666	73,517
Vocational	146,859	147,859	146,244	1,615
Other	339,800	356,800	355,377	1,423
Support services:				
Pupil	323,263	319,263	317,097	2,166
Instructional staff	531,911	497,711	482,505	15,206
Board of education	43,378	44,928	39,748	5,180
Administration	731,864	757,864	745,244	12,620
Fiscal	247,711	262,711	261,610	1,101
Operations and maintenance	793,160	775,160	747,361	27,799
Pupil transportation	530,273	571,173	558,719	12,454
Central	141,701	144,201	142,105	2,096
Extracurricular activities	211,648	209,648	205,826	3,822
Total expenditures	<u>8,904,824</u>	<u>8,904,824</u>	<u>8,730,452</u>	<u>174,372</u>
Excess of revenues over (under) expenditures	<u>(304,317)</u>	<u>(166,850)</u>	<u>83,035</u>	<u>249,885</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	4,921	5,000	2,065	(2,935)
Advances in	4,921	5,000		(5,000)
Advances (out)	(5,000)	(5,000)		5,000
Total other financing sources (uses)	<u>4,842</u>	<u>5,000</u>	<u>2,065</u>	<u>(2,935)</u>
Net change in fund balance	(299,475)	(161,850)	85,100	246,950
Fund balance at beginning of year	975,686	975,686	975,686	
Prior year encumbrances appropriated	110,113	110,113	110,113	
<b>Fund balance at end of year</b>	<u><u>\$786,324</u></u>	<u><u>\$923,949</u></u>	<u><u>\$1,170,899</u></u>	<u><u>\$246,950</u></u>

*The notes to the basic financial statements are an integral part of this statement.*

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AS OF JUNE 30, 2004**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$9,682	\$42,652
Cash with fiscal agent		698
	9,682	43,350
Total assets	9,682	43,350
<b>Liabilities:</b>		
Accounts payable	418	577
Deposits held and due to others		698
Due to students		42,075
	418	42,075
Total liabilities	418	42,075
<b>Net Assets:</b>		
Held in trust for scholarships	9,264	
Total net assets	\$9,264	

*The notes to the basic financial statements are an integral part of this statement.*



WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$99
Gifts and contributions	4,483
	<hr/>
Total additions	4,582
	<hr/>
<b>Deductions:</b>	
Scholarships awarded	4,435
	<hr/>
Change in net assets	147
Net assets at beginning of year	9,117
	<hr/>
Net assets at end of year	<u><u>\$9,264</u></u>

*The notes to the basic financial statements are an integral part of this statement.*

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**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

The West Liberty-Salem Local School District (the "District") is located in Champaign County and encompasses the Village of West Liberty and portions of surrounding townships. The District serves an area of approximately 58 square miles.

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

The District ranks as the 463<sup>rd</sup> largest by enrollment among the 613 districts in the state, and the 3<sup>rd</sup> largest in Champaign County. It currently operates 1 building, which contains 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 63 non-certified and 80 certified employees to provide services to 1,134 students in grades K through 12 and various community groups.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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 organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Jointly Governed Organizations**

**Western Ohio Computer Organization**

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of various public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Shelby, and Miami counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional function amount member school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent on the software package utilized. In accordance with GASB Statement No. 14, the District does not have an equity interest in WOCO, as the residual interest in net resources of the joint venture upon dissolution is not equivalent to an equity interest. WOCO is governed by a board of directors consisting of the superintendents of the members' school districts and the degree of control is limited to the representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

**Ohio Hi-Point Joint Vocational School**

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio, which possesses its own budgeting and taxing authority. The Vocational School is governed by a board of education that consists of a representative from each participating school district and its degree of control is limited to its representation on the board. To obtain financial information write to the Ohio Hi-Point Vocational School, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

**Metropolitan Educational Council**

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 Districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the MEC. The governing board of MEC consists of one voting representative from each member district. To obtain financial information, write to Metropolitan Educational Council, Elmo Kallner, who serves as director, 6100 Channingway Boulevard, Suite 604, Columbus, Ohio 43232.

**West Central Ohio Special Education Regional Resource Center**

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Insurance Purchasing Pools**

**Ohio School Boards Association Workers' Compensation Group Rating Program**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designed, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the Program to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235.

The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program 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 Program. 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 program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Program.

**Champaign, Delaware, Marion, Union School Insurance Consortium (CDMU)**

CDMU sponsors self-insured medical plans for nine school districts, educational service centers and Boards of Education primarily within Champaign, Delaware, Marion, and Union counties. These plans are for active employees and their covered dependents. Amongst the nine districts and service centers, there were three plans/plan options offered to active employees and their dependents during the period under review. CDMU has contracted with CoreSource for all administrative claims processing, claims payment, and customer service at CoreSource's Westerville, Ohio facility.

**Southwestern Ohio Educational Purchasing Cooperative (SOEPC)**

SOEPC is a purchasing cooperative made up of nearly 100 school districts in Champaign and surrounding counties. The purpose of the cooperative is to obtain lower prices for supplies and materials commonly used by the member districts. The members are obligated to pay all fees, charges, and assessments as established by SOEPC. Each member district has one voting representative. Title to any and all equipment and supplies purchased by SOEPC is held in trust for the member districts by the fiscal agent, the Champaign County Educational Service Center. Payments to SOEPC are made from the District's general fund.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting**

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

**1. Governmental Funds**

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

**General Fund**

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

**Classroom Facilities Fund**

The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

**2. Proprietary Fund**

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**3. Fiduciary Fund**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**1. Government-Wide Financial Statements**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

**2. Fund Financial Statements**

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities on 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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Revenue – Exchange and Non-Exchange Transactions**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**3. Expenses/Expenditures**

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

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



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function level for the General Fund and the fund level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. The appropriations resolution by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function appropriation for the General Fund and fund appropriation for any other fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function level for the General Fund and the fund level for all other funds.

**F. Cash and Investments**

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

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and non-negotiable certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Food Service special revenue fund (a nonmajor governmental fund), and the Classroom Facilities fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$31,035, which includes \$7,370 assigned from other funds.

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

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

**G. Inventory**

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

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

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital Assets**

Governmental capital assets are those assets specifically related to 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 deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$5,000. The change in the capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 8). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 6 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets. As of June 30, 2004, the District had no interfund receivables/payables.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, property tax revenue available for appropriation, and BWC refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. A portion of fund balance has also been designated for the West Liberty-Salem (WLS) building project Ohio School Facilities Commission (OSFC) expedited program.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside from BWC refunds. This reserve is required to spent in accordance with state statute. A schedule of statutory reserves is presented in Note 16.

**Q. Interfund Activity**

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 fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the basic financial statements. The District had no interfund activity during fiscal 2004.

**R. Extraordinary and Special Items**

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparison for the general fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by fund reclassifications and the conversion to the accrual basis of accounting.

**1. Governmental Activities - Fund Reclassification and Restatement of Fund Balance**

Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$683,793	\$531,252	\$296,948	\$1,511,993
Fund reclassifications			55,289	55,289
Implementation of GASB Interpretation No. 6	<u>(39,276)</u>			<u>(39,276)</u>
Restated fund balance, June 30, 2003	<u>\$644,517</u>	<u>\$531,252</u>	<u>\$352,237</u>	<u>\$1,528,006</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$1,528,006
GASB 34 adjustments:	
Long-term (deferred) assets	271,303
Capital assets	5,680,078
Accrued interest payable	(39,836)
Pension obligation	(97,100)
Long-term liabilities	<u>(1,552,726)</u>
Governmental activities net assets, June 30, 2003	<u>\$5,789,725</u>

**B. Deficit Fund Balances**

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

	<u>Deficit</u>
<b>Nonmajor Funds</b>	
Summer Intervention	\$359
Eisenhower Professional Development	11
IDEA Part B Grants	6,787
Drug-Free School Grant	14
Improving Teacher Quality	3,660

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

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



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Cash with Fiscal Agent:** At year-end, \$697 was on deposit in an account for unreimbursed medical claims.

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

**Deposits:** At year-end, the carrying amount of the District's deposits was \$2,216,938 and the bank balance was \$2,298,044. Both amounts include \$450,000 in non-negotiable certificates of deposits. Of the bank balance:

1. \$404,447 was covered by federal depository insurance deposited with the District; and
2. \$1,893,597 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

**Investments:** The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

	<b>Reported Amount</b>	<b>Fair Value</b>
Investment in STAR Ohio	\$1,327	\$1,327
Total investments	\$1,327	\$1,327

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

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$1,768,962	\$450,000
Investments of the cash management pool:		
Certificates of deposits	450,000	(450,000)
Investment in STAR Ohio	(1,327)	1,327
Cash with fiscal agent	(697)	
GASB Statement No. 3	\$2,216,938	\$1,327

**5. SCHOOL DISTRICT INCOME TAX**

During fiscal year 1983, voters of the District passed a .5% continuing income tax and a 1% renewable income tax that was first passed in 1992 and is subject to renewal every three years.

Employers of the residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenues credited to the general fund for fiscal year 2004 was \$1,391,506.

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**6. PROPERTY TAXES (Continued)**

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

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

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amounts available as an advance at June 30, 2004 were \$151,233 in the general fund, \$17,329 in the Bond Retirement debt service fund, and \$4,719 in the Permanent Improvement capital projects fund. These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2003 were \$146,725 in the general fund, \$18,316 in the Bond Retirement debt service fund, and \$4,346 in the Permanent Improvement capital projects fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<b>2003 Second Half Collections</b>		<b>2004 First Half Collections</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$85,540,360	88.4	\$87,238,906	89.6
Public utility personal	6,880,010	7.1	6,727,960	6.9
Tangible personal property	<u>4,367,105</u>	<u>4.5</u>	<u>3,438,259</u>	<u>3.5</u>
Total	<u><u>\$96,787,475</u></u>	<u><u>100.00</u></u>	<u><u>\$97,405,125</u></u>	<u><u>100.00</u></u>

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**6. PROPERTY TAXES (Continued)**

Tax rate per \$1,000 of  
assessed valuation:

Operations	\$33.50	\$ 33.60
Debt service	2.40	6.32
Permanent improvements	1.50	1.50
Classroom facilities	0.50	0.50

**7. RECEIVABLES**

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

**Governmental Activities:**

Property taxes	\$2,293,185
Income taxes	505,357
Accrued interest	288
Intergovernmental	19,285
Total	\$2,818,115

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

**8. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail) and due to the reporting of accumulated depreciation in accordance with GASB Statement No. 34.

	<b>Balance 6/30/03</b>	<b>Adjustments</b>	<b>Restated Balance 6/30/03</b>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$252,710		\$252,710
Construction-in-progress	37,816	9,970	47,786
Total capital assets, not being depreciated	290,526	9,970	300,496
Capital assets, being depreciated:			
Land improvements	553,632		553,632
Buildings and improvements	9,154,154		9,154,154
Furniture and equipment	1,561,248	(860,798)	700,450
Vehicles	785,988		785,988
Total capital assets, being depreciated	12,055,022	(860,798)	11,194,224
Less: accumulated depreciation:			
Land improvements		(394,327)	(394,327)
Buildings and improvements		(4,437,765)	(4,437,765)
Furniture and equipment		(508,706)	(508,706)
Vehicles		(473,844)	(473,844)
Total accumulated depreciation		(5,814,642)	(5,814,642)
Governmental activities capital assets, net	\$12,345,548	(\$6,665,470)	\$5,680,078

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**8. CAPITAL ASSETS (Continued)**

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

	<b>Restated Balance 06/30/03</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 06/30/04</b>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$252,710			\$252,710
Construction-in-progress	47,786			47,786
Total capital assets, not being depreciated	<u>300,496</u>			<u>300,496</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	553,632			553,632
Buildings and improvements	9,154,154			9,154,154
Furniture and equipment	700,450		(9,704)	690,746
Vehicles	785,988			785,988
Total capital assets, being depreciated	<u>11,194,224</u>		<u>(9,704)</u>	<u>11,184,520</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(394,327)	(27,681)		(422,008)
Buildings and improvements	(4,437,765)	(307,864)		(4,745,629)
Furniture and equipment	(508,706)	(24,497)	6,793	(526,410)
Vehicles	(473,844)	(67,794)		(541,638)
Total accumulated depreciation	<u>(5,814,642)</u>	<u>(427,836)</u>	<u>6,793</u>	<u>(6,235,685)</u>
Governmental activities capital assets, net	<u>\$5,680,078</u>	<u>(\$427,836)</u>	<u>(\$2,911)</u>	<u>\$5,249,331</u>

Depreciation expense was charged to governmental functions as follows:

**Instruction:**

Regular	\$262,944
Special	9,000
Vocational	22,235
Other	11,212

**Support Services:**

Pupil	1,013
Instructional Staff	12,000
Board of Education	1,260
Fiscal	1,500
Operations and maintenance	4,692
Pupil transportation	70,033
Central	27,681
Extracurricular activities	4,266
Total depreciation expense	<u>\$427,836</u>

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**9. LEASE - PURCHASE AGREEMENT**

On January 9, 2002, the District entered into a \$149,818 lease-purchase agreement with Wells Fargo Equipment Finance Inc. to finance the acquisition of equipment for performing strength training, cardio training, flexibility training, and muscle endurance training. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2004, the District made \$49,722 in principal payments and \$3,729 in interest payments on the lease-purchase agreement.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District. General capital assets consisting of equipment have been capitalized in the governmental activities of the District in the amount of \$149,818. This amount represents the costs of the equipment funded by the lease-purchase agreement as of June 30, 2004.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30	Amount
2005	\$53,451
2006	4,454
Total	57,905
Less amount representing interest	(1,480)
Present value of minimum lease payments	\$56,425

**10. LONG-TERM OBLIGATIONS**

**A.** The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability has been restated by \$13,983 from \$504,195 to \$518,178 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, the pension obligations of \$85,183 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end and are reported separately on the statement of net assets. The governmental activities long-term obligations have also been increased by \$106,147 in order to include the lease purchase agreement. The total effect on governmental activities long-term obligations was an increase of \$34,947 from \$1,569,378 to \$1,604,325.

**B.** All current general obligation bonds outstanding, issued to provide funds for the construction of the school building and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. On the fund financial statements, payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 2.1 mill bonded debt tax levy.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**10. LONG-TERM OBLIGATIONS (Continued)**

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 06/30/03</u>	<u>Retired in 2004</u>	<u>Bonds Outstanding 06/30/04</u>
School facility bonds	7.50%	08/01/87	12/01/09	<u>\$980,000</u>	<u>(\$140,000)</u>	<u>\$840,000</u>

D. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$140,000	\$57,750	\$197,750
2006	140,000	47,250	187,250
2007	140,000	36,750	176,750
2008	140,000	26,250	166,250
2009	140,000	15,750	155,750
2010	<u>140,000</u>	<u>5,250</u>	<u>145,250</u>
Total	<u>\$840,000</u>	<u>\$189,000</u>	<u>\$1,029,000</u>

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

	<u>Restated Balance 06/30/03</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/04</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities</b>					
Compensated absences payable	\$518,178	\$99,039	(\$82,146)	\$535,071	\$87,305
General obligation bonds payable	980,000		(140,000)	840,000	140,000
Lease purchase agreement	<u>106,147</u>		<u>(49,722)</u>	<u>56,425</u>	<u>51,987</u>
Total governmental activities long-term liabilities	<u>\$1,604,325</u>	<u>\$99,039</u>	<u>(\$271,868)</u>	<u>\$1,431,496</u>	<u>\$279,292</u>

Compensated absences will be paid from the fund from which the employee is paid. See Note 9 for detail on the lease purchase agreement.

**F. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$8,899,210 and an unvoted debt margin of \$97,405.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**11. RISK MANAGEMENT**

**A. Property and Liability**

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 2004, the District contracted with Utica National Insurance Group (through the Insurance Center of Springfield) for property and fleet insurance, liability insurance, and inland marine coverage. Coverages provided by Utica National Insurance Group are as follows:

<u>Type of Coverage</u>	<u>Amount</u>
Building and Business Personal Property including EDP	\$20,592,880
Replacement cost (\$2,500 deductible)	
Marine coverage (\$1,000 deductible)	250
Automotive Liability	
- (Comprehensive deductibles – buses - \$500 – All Other - \$100	
Collision deductible – buses - \$500 – All Other - \$250	1,000,000
General Liability Per Occurrence	3,000,000
Total per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in amounts of insurance coverage for fiscal year 2004.

**B. Workers' Compensation**

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program.

The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all school Districts in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program 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 Program. 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 Program. Participation in the Program is limited to Districts that can meet the Program's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Program. Effective July 1, 2004, the District will no longer be a member of OSBA Group 1. Due to a major lost-time claim, the District has become a penalty rated district and has become part of the premium discount program offered by the Bureau of Workers' Compensation.



**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**11. RISK MANAGEMENT (Continued)**

**C. Employee Medical**

The District is also a member of the Champaign, Delaware, Marion, and Union county Schools Insurance Consortium (CDMU). CDMU sponsors self-insured medical plans for nine (9) school districts, educational service centers and Boards of Education. These plans are for active employees and their covered dependents. Amongst the nine districts and service centers, there were three plans/plan options offered to active employees and their dependents during the period under review. CDMU has contracted with CoreSource for all administrative, claims processing, claims payment, and customer service at CoreSource's Westerville, Ohio facility. Medical Mutual is the PPO provider for the CDMU.

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

**12. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

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 school district 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$112,108, \$98,011, and \$61,909, respectively; 68.20% has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$35,651.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. There were no changes in the contribution amounts from fiscal year 2003. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$526,928, \$499,661, and \$349,317, respectively; 82.39 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$92,768.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**13. POSTEMPLOYMENT BENEFITS**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$40,533 during fiscal 2004.

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**13. POSTEMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 105,000 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$85,694 during the 2004 fiscal year.

**14. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**14. BUDGETARY BASIS OF ACCOUNTING (Continued)**

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

	<b>General Fund</b>
Budget basis	\$85,100
Net adjustment for revenue accruals	27,076
Net adjustment for expenditure accruals	(60,917)
Net adjustment for other sources/uses	(2,065)
Adjustment for encumbrances	64,533
GAAP basis	\$113,727

**15. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**16. STATUTORY RESERVES**

As stated in House Bill 412, revised in Senate Bill 345, school districts are required to maintain two reserves; one for capital acquisition and maintenance, and one for textbooks and other instructional materials. A reserve represents resources whose use is limited because of contractual or statutory restrictions.

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

**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

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

**16. STATUTORY RESERVES (Continued)**

	<b>Textbooks</b>	<b>Capital Acquisition</b>	<b>BWC Refunds</b>
Set-aside cash balance as of June 30, 2003	(\$102,802)	(\$251,485)	\$47,429
Current year set-aside requirement	153,885	153,885	
Current year offsets		(97,345)	
Qualifying disbursements	(88,651)	(24,175)	
	(\$37,568)	(\$219,120)	\$47,429
Total	(\$37,568)	(\$219,120)	\$47,429
Cash balance carried forward to FY 2005	(\$37,568)	(\$219,120)	\$47,429

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

Amounts restricted for BWC refunds	\$47,429
------------------------------------	----------

The District had qualifying disbursements during the year that reduced the textbooks and capital acquisition set-aside amounts to below zero. The District may, and has chosen to carry forward the excess amount for the textbooks and capital acquisition set-asides to offset set-aside requirements of future years.

In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, the unspent portion of workers' compensation refunds continues to be set aside at fiscal year end. This balance must be spent according to S.B. 345.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

West Liberty-Salem Local School District  
Champaign County  
7208 North US Route 68  
West Liberty, Ohio 43357-9674

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Liberty-Salem Local School District, Champaign County, (the "District"), as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated January 25, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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.

This report is intended solely for the information and use of the audit committee, management, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

January 25, 2005





**Auditor of State  
Betty Montgomery**

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**WEST LIBERTY-SALEM LOCAL SCHOOL DISTRICT  
CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2005**