



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

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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 12, 2006

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

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

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$96,764 which represents a 1.74% increase from 2004.
- General revenues accounted for \$9,671,825 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 \$1,218,073 or 11.29% of total revenues of \$10,889,898.
- The District had \$10,793,134 in expenses related to governmental activities; \$1,218,073 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 \$9,671,825 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$9,390,095 in revenues and \$9,349,853 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$40,242 from \$661,264 to \$701,506.

Using these 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 is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 13-19 of this report.

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 21 and 22. 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 23-47 of this report.

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

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

The District as a Whole

The table below provides a summary of the District's net assets for 2004 and 2005.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Assets		
Current and other assets	\$5,240,630	\$5,013,334
Capital assets, net	5,207,952	5,249,331
Total assets	10,448,582	10,262,665
Liabilities		
Current liabilities	3,478,676	3,284,677
Long-term liabilities	1,326,650	1,431,496
Total liabilities	4,805,326	4,716,173
Net Assets		
Invested in capital assets, net of related debt	4,507,952	4,352,906
Restricted	1,037,070	817,371
Unrestricted	98,234	376,215
Total net assets	\$5,643,256	\$5,546,492

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$5,643,256. Of this total, \$98,234 is unrestricted in use.

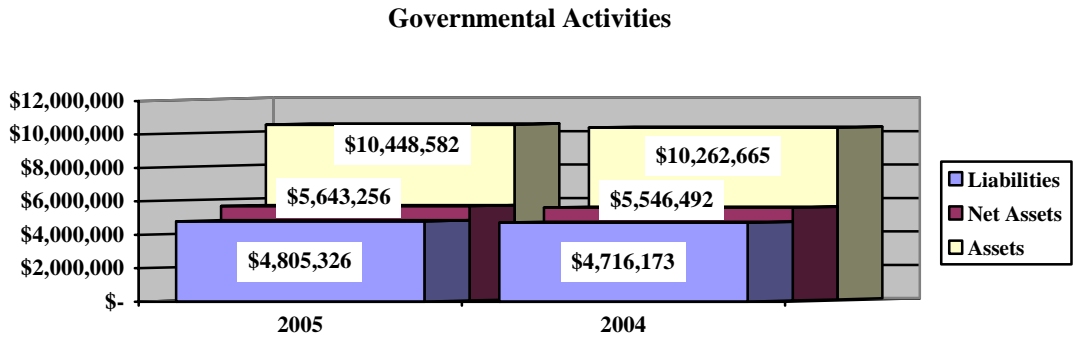
At year-end, capital assets represented 49.84% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$4,507,952. These 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, \$1,037,070, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$98,234 may be used to meet the District's ongoing obligations to the students and creditors.

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

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

The graph below illustrates the District's assets, liabilities and net assets as reported on the Statement of Net Assets at June 30, 2005 and 2004:



The table below shows the change in net assets for fiscal year 2005 and 2004:

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$678,172	\$672,355
Operating grants and contributions	527,407	423,109
Capital grants and contributions	12,494	31,581
General revenues:		
Property taxes	2,375,051	2,145,383
Income taxes	1,438,360	1,391,506
Grants and entitlements	5,717,051	5,310,324
Investment earnings	65,645	43,214
Other	75,718	51,026
Total revenues	10,889,898	10,068,498

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

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

Expenses	Change in Net Assets	
	Governmental Activities	Governmental Activities
	2005	2004
Program expenses:		
Instruction:		
Regular	\$4,279,363	\$4,320,074
Special	1,048,906	995,857
Vocational	148,876	169,714
Other	394,608	371,133
Support services:		
Pupil	410,643	445,307
Instructional staff	512,445	474,772
Board of education		48,693
Administration	837,234	748,866
Fiscal	290,174	272,546
Operations and maintenance	863,668	813,413
Pupil transportation	675,771	638,730
Central	159,203	173,188
Operation of non-instructional services:		
Food service operations	359,876	402,306
Other non-instructional services	342,476	11,671
Extracurricular activities	417,001	359,664
Interest and fiscal charges	52,890	65,797
Total expenses	10,793,134	10,311,731
Change in net assets	96,764	(243,233)
Net assets at beginning of year	5,546,492	5,789,725
Net assets at end of year	\$5,643,256	\$5,546,492

Governmental Activities

Net assets of the District's governmental activities increased \$96,764. Total governmental expenses of \$10,793,134 were offset by program revenues of \$1,218,073 and general revenues of \$9,671,825. Program revenues supported 11.29% of the total governmental expenses.

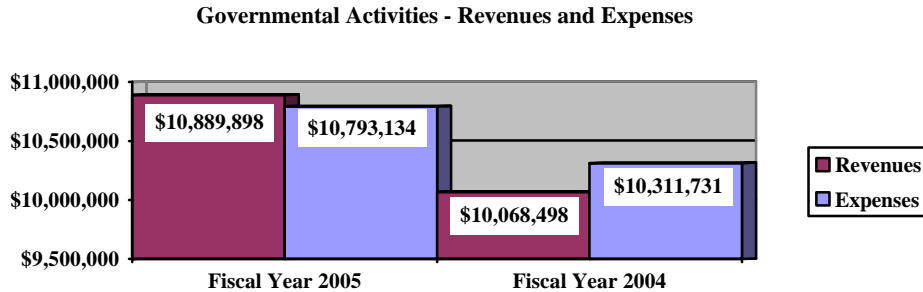
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 87.52% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,871,753 or 54.40% of total governmental expenses for fiscal 2005.

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

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

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



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, which identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$4,279,363	\$4,031,350	\$4,320,074	\$4,099,386
Special	1,048,906	881,786	995,857	846,856
Vocational	148,876	148,876	169,714	169,714
Other	394,608	394,608	371,133	371,133
Support services:				
Pupil	410,643	196,221	445,307	336,977
Instructional staff	512,445	504,862	474,772	465,747
Board of education			48,693	48,693
Administration	837,234	837,234	748,866	720,537
Fiscal	290,174	290,174	272,546	272,546
Operations and maintenance	863,668	846,174	813,413	804,157
Pupil transportation	675,771	671,441	638,730	628,373
Central	159,203	159,203	173,188	173,188
Operation of non-instructional services:				
Food service operations	359,876	(71,298)	402,306	(28,001)
Other non-instructional services	342,476	336,476	11,671	(106)
Extracurricular activities	417,001	295,064	359,664	209,689
Interest and fiscal charges	52,890	52,890	65,797	65,797
Total expenses	\$10,793,134	\$9,575,061	\$10,311,731	\$9,184,686

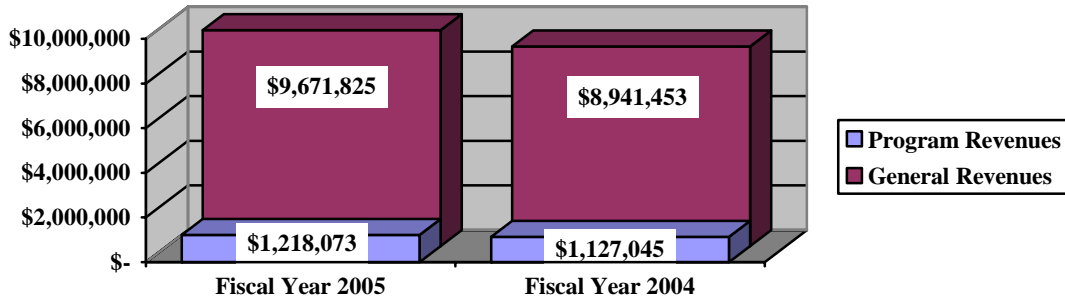
The dependence upon tax and other general revenues for governmental activities is apparent, 92.93% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.71%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

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

The graph below presents the District's governmental activities revenues for fiscal year 2005 and 2004:

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,632,227, which is higher than last year's total of \$1,560,868. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	<u>Fund Balance June 30, 2005</u>	<u>Restated Fund Balance June 30, 2004</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$701,506	\$661,264	\$40,242	6.09 %
Other Governmental	930,721	899,604	31,117	3.46 %
Total	<u>\$1,632,227</u>	<u>\$1,560,868</u>	<u>\$71,359</u>	4.57 %

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

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

General Fund

The District's general fund's fund balance increased by \$40,242 (after a restatement to the June 30, 2004, 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 revenues increasing faster than expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Taxes	\$3,455,155	\$3,376,471	\$78,684	2.33 %
Earnings on investments	51,518	31,035	20,483	66.00 %
Intergovernmental	5,695,764	5,288,660	407,104	7.70 %
Other revenues	<u>187,658</u>	<u>144,397</u>	<u>43,261</u>	29.96 %
Total	<u><u>9,390,095</u></u>	<u><u>8,840,563</u></u>	<u><u>549,532</u></u>	6.22 %
Expenditures				
Instruction	5,615,125	5,233,489	381,636	7.29 %
Support services	3,409,506	3,233,002	176,504	5.46 %
Extracurricular activities	253,457	206,894	46,563	22.51 %
Debt service	<u>57,905</u>	<u>53,451</u>	<u>4,454</u>	8.33 %
Total	<u><u>\$9,335,993</u></u>	<u><u>\$8,726,836</u></u>	<u><u>\$609,157</u></u>	6.98 %

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$9,296,384. Actual revenues and other financing sources for fiscal 2005 was \$9,297,797. This represents a \$1,413 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$9,396,069 and final appropriations totaled \$9,416,069. The actual budget basis expenditures for fiscal year 2005 totaled \$9,366,016, which is \$50,053 less than the final budgeted appropriations.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$5,207,952 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$252,710	\$252,710
Land improvements	118,628	131,624
Building and improvements	4,133,205	4,408,525
Furniture and equipment	362,198	164,336
Vehicles	286,265	244,350
Construction in progress	54,946	47,786
Total	\$5,207,952	\$5,249,331

The overall decrease in capital assets is \$41,379. Depreciation expense of \$360,611 exceeded capital outlays of \$319,232 in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$700,000 in general obligation bonds. Of this total, \$140,000 is due within one year and \$560,000 is due within greater than one year. The following table summarizes the bonds and lease purchase obligation outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
	General obligation bonds	\$700,000
Lease purchase agreement	-	56,425
Total	\$700,000	\$896,425

At June 30, 2005, the District's overall legal debt margin was \$8,544,605, and an unvoted debt margin of \$101,036.

See Note 11 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, 2005
(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 97% of the General Fund Revenue during fiscal year 2005 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 during January 2005. The continued renewal of this 1% income tax will remain a high priority for the future of this district.

In addition, the voters of the district approved the replacement of 1.5 Mill Permanent Improvement Levy for a period of five years. This replacement levy allows the district to continue the upkeep and maintenance of its current building and to establish a plan of purchasing a new school bus every year. In addition to maintaining the Five-Year Forecast as required the school district has developed a Five-Year Strategic Plan. The vision of the District is a "quality staff providing support for student success" and the mission of the district is to be an "educational partnership dedicated to helping students reach their full potential". The Strategic Plan also includes the following three goals: 1) West Liberty- Salem Local School will achieve an excellent rating on the state report card by 2007; 2) West Liberty-Salem Local School will be fiscally responsible by continually maintaining a minimum cash reserve equaling one month of expenditures; and 3) West Liberty-Salem Local School will develop a plan by the end of the 2005/06 school years to update facilities to meet school and community needs.

In an effort to reduce cost during fiscal year 2005 and future years the District continues to look at ways of reducing and or maintaining expenses while still providing quality education services. All areas of expense are reviewed for possible changes and reductions including staffing. When any District staff member leave's the district due to retirement or for any reason the current administration is looking at all possible alternatives before hiring someone to replace that employee. In previous years the District has reduced spending in the supply and equipment areas, however due to HB412 spending requirements these areas have been increased for fiscal year 2006 to a level similar to what was being spent in previous year prior to these reductions. A major area of concern for fiscal year 2006 is the rising utility cost including electricity, natural gas, and bus fuel. Increases are ranging 25% to 45 % for this area of expense and will create a negative impact to the District.

Since the District relies on the State for approximately 59% of the general operating revenues, one of the largest challenges facing the district, is state funding which the district has very little control over. HB 66 the new State Budget document for Fiscal Years 2006 and 2007 has a not provided a very encouraging outlook for the next two years. The District is fortune in that it did receive some additional funding from the State over the next two years, however this additional amount was much less than had been anticipated and planned for. In addition, HB66 calls for the phase out and elimination of the Cost of Doing Business Factor and the Tangible Personal Property Tax both areas of revenue support for the District and all other school districts. The State is eliminating the Tangible Personal Property Tax in anticipation of attracting new industries and business owners to Ohio, which will create new tax revenues for the State and the schools. Hopefully this anticipation is realistic and schools will see a positive impact.

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.

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

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

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. Steve 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
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,720,031
Investments	450,000
Receivables:	
Taxes	3,017,172
Intergovernmental	23,840
Accrued Interest	3,811
Prepayments	6,173
Materials and Supplies Inventory	19,603
Capital Assets:	
Land	252,710
Construction in Progress	54,946
Depreciable Capital Assets, Net	4,900,296
Total Capital Assets, Net	5,207,952
 Total Assets	 10,448,582
 Liabilities:	
Accounts Payable	115,793
Accrued Wages and Benefits	992,034
Pension Obligation Payable	227,057
Intergovernmental Payable	64,514
Deferred Revenue	2,051,964
Accrued Interest Payable	27,314
Long-Term Liabilities:	
Due Within One Year	165,808
Due within more than one year	1,160,842
Total Liabilities	4,805,326
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,507,952
Restricted for:	
Capital Projects	577,896
Debt Service	139,229
Other Purposes	319,945
Unrestricted	98,234
 Total Net Assets	 \$5,643,256

The notes to the 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, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>and Sales</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$4,279,363	\$172,996	\$75,017		(\$4,031,350)
Special	1,048,906		167,120		(881,786)
Vocational	148,876				(148,876)
Other	394,608				(394,608)
Support Services:					
Pupil	410,643		214,422		(196,221)
Instructional Staff	512,445		7,583		(504,862)
Administration	837,234				(837,234)
Fiscal	290,174				(290,174)
Operations and Maintenance	863,668		5,000	12,494	(846,174)
Pupil Transportation	675,771		4,330		(671,441)
Central	159,203				(159,203)
Operation of Non-Instructional services:					
Food Service Operations	359,876	384,140	47,034		71,298
Other Non-Instructional Services	342,476		6,000		(336,476)
Extracurricular Activities	417,001	121,036	901		(295,064)
Interest and Fiscal Charges	52,890				(52,890)
Total Governmental Activities	<u>\$10,793,134</u>	<u>\$678,172</u>	<u>\$527,407</u>	<u>\$12,494</u>	<u>(9,575,061)</u>

General Revenues:

Property Taxes Levied For:	
General Purposes	2,022,519
Special Revenue	39,316
Debt Service	200,390
Capital Projects	112,826
Income Taxes Levied For:	
General Purposes	1,438,360
Grants and Entitlements Not Restricted to Specific Programs	5,717,051
Investment Earnings	65,645
Miscellaneous	75,718
Total General Revenues	<u>9,671,825</u>
Change in Net Assets	96,764
Net Assets at Beginning of Year	<u>5,546,492</u>
Net Assets at End of Year	<u>\$5,643,256</u>

The notes to the 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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$705,987	\$966,615	\$1,672,602
Investments	450,000		450,000
Receivables:			
Taxes	2,629,337	387,835	3,017,172
Intergovernmental		23,840	23,840
Accrued Interest	3,811		3,811
Prepayments	6,173		6,173
Materials and Supplies Inventory	10,311	9,292	19,603
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	47,429		47,429
Total Assets	<u>3,853,048</u>	<u>1,387,582</u>	<u>5,240,630</u>
Liabilities:			
Accounts Payable	90,019	25,774	115,793
Accrued Wages and Benefits	927,311	64,723	992,034
Pension Obligation Payable	210,591	16,466	227,057
Intergovernmental Payable	60,250	4,264	64,514
Deferred Revenue	1,863,371	345,634	2,209,005
Total Liabilities	<u>3,151,542</u>	<u>456,861</u>	<u>3,608,403</u>
Fund Balances:			
Reserved for Encumbrances	19,264	72,483	91,747
Reserved for Materials and Supplies Inventory	10,311	9,292	19,603
Reserved for Prepayments	6,173		6,173
Reserved for Debt Service		125,291	125,291
Reserved for Property Tax Unavailable for Appropriation	221,144	42,201	263,345
Reserved for BWC refunds	47,429		47,429
Unreserved:			
Designation for WLS Building Project OSFC Expedited rogram		426,934	426,934
Designated for Capital Maintenance	175,700		175,700
Undesignated, Reported in:			
General fund	221,485		221,485
Special Revenue funds		168,238	168,238
Capital Projects Funds		86,282	86,282
Total Fund Balances	<u>701,506</u>	<u>930,721</u>	<u>1,632,227</u>
Total Liabilities and Fund Balances	<u>\$3,853,048</u>	<u>\$1,387,582</u>	<u>\$5,240,630</u>

The notes to the 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, 2005**

Total Governmental Fund Balances		\$1,632,227
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital Assets Used in Governmental Activities are not Financial Resources and Therefore are Not Reported in the Funds		5,207,952
Other Long-Term Assets are not Available to Pay for Current- Period Expenditures and Therefore are Deferred in the Funds. Delinquent Taxes		157041
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	(626,650)	
General Obligation Bonds Payable	(700,000)	
Accrued Interest Payable	<u>(27,314)</u>	
Total		<u>(1,353,964)</u>
Net Assets of Governmental Activities		<u><u>\$5,643,256</u></u>

The notes to the 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, 2005**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$3,455,155	\$346,273	\$3,801,428
Tuition	168,386		168,386
Earnings on Investments	51,518	14,127	65,645
Charges for Services		384,140	384,140
Extracurricular		176,368	176,368
Classroom Materials and Fees		901	901
Other Local Revenues	19,272	61,056	80,328
Intergovernmental - State	5,695,764	94,119	5,789,883
Intergovernmental - Federal		410,836	410,836
Total Revenue	<u>9,390,095</u>	<u>1,487,820</u>	<u>10,877,915</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,186,176	12,163	4,198,339
Special	902,100	136,133	1,038,233
Vocational	147,443		147,443
Other	379,406	76,810	456,216
Support Services:			
Pupil	241,784	159,069	400,853
Instructional Staff	485,077	36,841	521,918
Board of Education	48,602		48,602
Administration	732,581	54,431	787,012
Fiscal	277,398	6,098	283,496
Operations and Maintenance	793,133	78,181	871,314
Pupil Transportation	686,157	3,375	689,532
Central	144,774		144,774
Operation of Non-Instructional Services:			
Food Service Operations		359,876	359,876
Other Non-Instructional Services		57,709	57,709
Extracurricular Activities	253,457	163,361	416,818
Facilities Acquisition and Construction		128,766	128,766
Debt Service:			
Principal Retirement	56,425	140,000	196,425
Interest and Fiscal Charges	1,480	57,750	59,230
Total Expenditures	<u>9,335,993</u>	<u>1,470,563</u>	<u>10,806,556</u>
Revenues Over Expenditures	<u>54,102</u>	<u>17,257</u>	<u>71,359</u>
Other Financing Sources (Uses):			
Transfers In		13,860	13,860
Transfers Out	(13,860)		(13,860)
Total Other Financing Sources (Uses)	<u>(13,860)</u>	<u>13,860</u>	
Net Change in Fund Balances	40,242	31,117	71,359
Fund Balances at Beginning of Year (Restated)	<u>661,264</u>	<u>899,604</u>	<u>1,560,868</u>
Fund Balances at End of Year	<u>\$701,506</u>	<u>\$930,721</u>	<u>\$1,632,227</u>

The notes to the 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, 2005**

Net change in fund balances - total governmental funds \$71,359

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$360,611) exceeds capital outlays (\$319,232) in the current period. (41,379)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 11,983

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. 196,425

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. 6,340

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. (147,964)

Change in net assets of governmental activities \$96,764

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

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Revenues:				
From local sources:				
Taxes	\$3,459,796	\$3,459,796	\$3,366,380	(\$93,416)
Tuition	216,015	216,015	168,386	(47,629)
Earnings on Investments	51,000	51,000	47,995	(3,005)
Other Local Revenues	20,500	20,500	19,256	(1,244)
Intergovernmental - State	<u>5,539,073</u>	<u>5,539,073</u>	<u>5,695,764</u>	<u>156,691</u>
Total Revenues	<u>9,286,384</u>	<u>9,286,384</u>	<u>9,297,781</u>	<u>11,397</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,177,446	4,148,946	4,147,893	1,053
Special	862,034	912,474	911,763	711
Vocational	153,642	151,342	149,492	1,850
Other	383,000	384,000	381,040	2,960
Support Services:				
Pupil	254,379	241,379	233,383	7,996
Instructional Staff	498,554	506,254	492,823	13,431
Board of Education	52,175	52,175	51,517	658
Administration	840,731	837,231	833,585	3,646
Fiscal	270,685	277,485	277,449	36
Operations and Maintenance	827,736	808,036	799,737	8,299
Pupil Transportation	662,544	678,544	676,347	2,197
Central	149,430	147,430	146,983	447
Extracurricular Activities	<u>243,713</u>	<u>251,913</u>	<u>250,144</u>	<u>1,769</u>
Total Expenditures	<u>9,376,069</u>	<u>9,397,209</u>	<u>9,352,156</u>	<u>45,053</u>
Revenues Under Expenditures	(89,685)	(110,825)	(54,375)	56,450
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	5,000	5,000	16	(4,984)
Advances In	5,000	5,000		(5,000)
Advances Out	(5,000)	(5,000)		5,000
Transfers Out	<u>(15,000)</u>	<u>(13,860)</u>	<u>(13,860)</u>	
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(8,860)</u>	<u>(13,844)</u>	<u>(4,984)</u>
Net Change in Fund Balance	(99,685)	(119,685)	(68,219)	51,466
Fund Balances at Beginning of Year	1,170,899	1,170,899	1,170,899	
Prior Year Encumbrances Appropriated	<u>64,533</u>	<u>64,533</u>	<u>64,533</u>	
Fund Balances at End of Year	<u><u>\$1,135,747</u></u>	<u><u>\$1,115,747</u></u>	<u><u>\$1,167,213</u></u>	<u><u>\$51,466</u></u>

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

WEST LIBERTY SALEM LOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$48,397</u>
Total Assets	<u><u>48,397</u></u>
Liabilities:	
Accounts Payable	1,422
Due to Students	<u>46,975</u>
Total Liabilities	<u><u>\$48,397</u></u>

The notes to the 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, 2005**

	Private-Purpose Trust Scholarship
Additions:	
Gifts and Contributions	\$4
Interest	33
Total Additions	37
Deductions:	
Scholarships Awarded	9,301
Change in Net Assets	(9,264)
Net Assets at Beginning of Year	9,264
Net Assets at End of Year	<u>\$0</u>

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

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 444th largest by enrollment among the 614 districts in the state, and the 3rd largest in Champaign County. It currently operates one building, which contains an elementary school, a middle school, and a comprehensive high school. The District employs 64 non-certified and 84 certified employees to provide services to 1,183 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statement 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, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the 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 SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

1. 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 129 East Court Street, Sidney, Ohio 45365.

Ohio Hi-Point Joint Vocational School

The Ohio Hi-Point Joint Vocational School District is a district 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 services 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 contracting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Southwestern Ohio Educational Purchasing Council

The District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2005, the School District paid \$38,144. to SOEPC.

To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

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.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 is 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 provide it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities 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 SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

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 used the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

Non-exchange 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 7).

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

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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 SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 2005 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 2005.
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. Resolution appropriations 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 in the General Fund and the fund level for all other funds 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, 2005; 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.
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.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005, 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.

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, 2005.

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 and the Classroom Facilities Capital Projects Fund (nonmajor governmental funds), and the. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$51,518, which includes \$44,957 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.

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.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 9). 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:

Description	Governmental Activities Estimated Lives
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, 2005, 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.

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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in 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 unavailable 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 capital maintenance and for the West Liberty-Salem (WLS) building project Ohio School Facilities Commission (OSFC) expedited program.

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

N. Prepayments

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

O. Estimates

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside for BWC refunds. This reserve is required by state statute. A schedule of statutory reserves is presented in Note 17.

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 2005.

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 2005.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

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

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

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

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

	General	Non-major	Total
Fund Balances, June 30, 2004	\$741,645	\$912,129	\$1,653,774
GASB Technical Bulletin No. 2004-2	(80,381)	(12,525)	(92,906)
Restated Fund Balance, June 30, 2004	\$661,264	\$899,604	\$1,560,868

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Deficit Fund Balances

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

<u>Non-major Funds</u>	<u>Deficit</u>
IDEA Part B Grants	\$19
Drug-Free School Grant	20
Improving Teacher Quality	4,250

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 results from adjustments for accrued liabilities.

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

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

A. Deposits with Financial Institutions

At June 20, 2005, the carrying amount of all District deposits was \$1,939,681. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,805,219 of the District's bank balance of \$2,105,219 was exposed to custodial risk as discussed below, while \$300,000 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

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

<u>Investment Type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAR Ohio	\$278,747	\$278,474

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 278,747	100.00

C. Reconciliation of Cash and Investment to the Statement of Net Assets

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

Cash and Investments per footnote

Carrying amount of deposits	\$1,939,681
Investments	<u>278,747</u>
Total	<u><u>\$2,218,428</u></u>

Cash and investments per Statement of Net Assets

Governmental activities	\$2,170,031
Agency funds	<u>48,397</u>
Total	<u><u>\$2,218,428</u></u>

5. INTERFUND TRANSACTIONS

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

<u>Transfers to Non-major Governmental funds from:</u>	<u>Amount</u>
General Fund	\$13,860

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

6. 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 during 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 2005 was \$1,438,360.

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from 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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

7. PROPERTY TAXES (Continued)

The amounts available as an advance at June 30, 2005 were \$221,144 in the General Fund, \$23,026 in the Bond Retirement Debt Service Fund, \$14,891 in the Permanent Improvement Capital Projects Fund, and \$4,284 in Classroom Facilities Maintenance Fund. These amounts have been recorded as 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.

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

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

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$87,238,906	89.56	\$90,968,120	90.04
Public utility personal	6,727,960	6.91	6,713,770	6.64
Tangible personal property	3,438,259	3.53	3,353,756	3.32
Total	\$97,405,125	100.00	\$101,035,646	100.00

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

Operations	\$35.60	\$35.60
Debt service	6.32	6.32
Permanent improvements	1.50	1.50
Classroom facilities	0.50	0.50

8. RECEIVABLES

Receivables at June 30, 2005 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:

Taxes	\$3,017,172
Accrued interest	3,811
Intergovernmental	23,840
Total	\$3,044,823

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

9. CAPITAL ASSETS

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

	<u>Balance 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/05</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 252,710			\$ 252,710
Construction-in-progress	47,786	7,160		54,946
Total capital assets, not being depreciated	<u>300,496</u>	<u>7,160</u>		<u>307,656</u>
Capital assets, being depreciated:				
Land improvements	553,632			553,632
Buildings and improvements	9,154,154	28,906		9,183,060
Furniture and equipment	690,746	226,666	(33,241)	884,171
Vehicles	785,988	56,500		842,488
Total capital assets, being depreciated	<u>11,184,520</u>	<u>312,072</u>	<u>(33,241)</u>	<u>11,463,351</u>
Less: accumulated depreciation				
Land improvements	(422,008)	(12,996)		(435,004)
Buildings and improvements	(4,745,629)	(304,226)		(5,049,855)
Furniture and equipment	(526,410)	(28,804)	33,241	(521,973)
Vehicles	(541,638)	(14,585)		(556,223)
Total accumulated depreciation	<u>(6,235,685)</u>	<u>(360,611)</u>	<u>33,241</u>	<u>(6,563,055)</u>
Governmental activities capital assets, net	<u>\$ 5,249,331</u>	<u>(\$ 41,379)</u>	<u>\$ 0</u>	<u>\$5,207,952</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$4,788
Vocational	333
Other	9,864
Support Services:	
Pupil	1,012
Board of Education	8,885
Fiscal	1,500
Business	14,585
Pupil transportation	2,812
Central	12,996
Operation of non-institutional	303,653
Extracurricular activities	<u>183</u>
Total depreciation expense	<u><u>\$360,611</u></u>

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

10. 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 performance 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 2005, the District made \$56,425 in principal payments and \$1,480 in interest payments on the lease-purchase. The final principal and interest payments were made during 2005.

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, 2005.

11. LONG-TERM OBLIGATIONS

A. 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 August 1, 1987, the district issued \$3,060,000 in bonds. On the fund financial statements, payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Fund (Other Governmental Funds). The source of payment is derived from a current 6.32 mill bonded debt tax levy.

B. The following is a description of the District's bonds outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Bonds Outstanding 06/30/04</u>	<u>Retired in 2005</u>	<u>Bonds Outstanding 06/30/05</u>
School facility bonds	7.50%	08/01/87	12/01/09	<u>\$840,000</u>	<u>(\$140,000)</u>	<u>\$700,000</u>

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>
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	140,000	5,250	145,250
Total	<u>\$700,000</u>	<u>\$131,250</u>	<u>\$831,250</u>

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

11. LONG-TERM OBLIGATIONS (Continued)

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

	<u>Balance 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/05</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Compensated absences payable	\$535,071	\$145,824	(\$54,245)	\$626,650	\$25,808
General obligation bonds payable	840,000	-	(140,000)	700,000	140,000
Lease purchase agreement	56,425	-	(56,425)	-	-
Total governmental activities long-term liabilities	<u>\$1,431,496</u>	<u>\$145,824</u>	<u>(\$250,670)</u>	<u>\$1,326,650</u>	<u>\$165,808</u>

Compensated absences will be paid from the fund from which the employee is paid. See Note 10 for detail on the lease purchase agreement.

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$8,544,605 and an unvoted debt margin of \$101,036.

12. 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 2005, 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 Replacement cost (\$2,500 deductible)	\$20,526,091
Marine coverage (\$250 deductible)	1,000
Automotive Liability	
Comprehensive deductibles – buses - \$500 – All Other - \$100 Collision deductible – buses - \$500 – All Other - \$250	1,000,000
General Liability	
Per Occurrence	1,000,000
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 2005.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

12. RISK MANAGEMENT

B. Workers' Compensation

For fiscal year 2005, 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.

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.

13. DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (614) 222-5853, by visiting the website at www.ohsers.org, under forms and publications.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

13. DEFINED BENEFIT PENSION PLAN (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$139,817, \$112,108 and \$98,011, respectively; 82.65% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$24,261 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

13. DEFINED BENEFIT PENSION PLAN (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$551,361, \$526,928, and \$499,661, respectively; 81.62% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$101,328 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$12,699 made by the District and \$2,908 made by plan members.

C. Social Security System

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

14. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$42,412 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

14. POSTEMPLOYMENT BENEFITS (Continued)

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178.221 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$74,855 during the 2005 fiscal year.

15. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	General Fund
Budget basis	(\$68,219)
Net adjustment for revenue accruals	92,314
Net adjustment for expenditure accruals	52,366
Net adjustment for other sources/uses	(16)
Adjustment for encumbrances	(36,203)
GAAP basis	\$40,242

**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

16. 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.

17. 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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	(\$37,568)	(\$219,120)	\$47,429
Current year set-aside requirement	160,579	160,579	-
Current year offsets		(149,642)	-
Qualifying disbursements	<u>(124,230)</u>	<u>(93,612)</u>	<u>-</u>
Set-Aside Balance at June 30, 2005	<u>(\$1,219)</u>	<u>(\$301,795)</u>	<u>\$47,429</u>
Cash balance carried forward to FY2006	<u>(\$1,219)</u>	<u>(\$301,795)</u>	<u>\$47,429</u>

A schedule of restricted assets at June 30, 2005 follows:

Amounts restricted for BWC refunds	<u>\$47,429</u>
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**WEST LIBERTY SALEMLOCAL SCHOOL DISTRICT
CHAMPAIGN COUNTY**

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

17. STATUTORY RESERVES (Continued)

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.

During prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2005, 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 12, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

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

West Liberty-Salem Local School District
Champaign County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for 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 12, 2005



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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
FEBRUARY 23, 2006**