



**Auditor of State
Betty Montgomery**

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Westfall Local School District
Pickaway County
19463 Pherson Pike
Williamsport, Ohio 43164

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 Westfall Local School District, Pickaway County, Ohio, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 Westfall Local School District, Pickaway County, Ohio, as of June 30, 2004, and the changes in financial position and cash flows, where applicable, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting and 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

June 15, 2005

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The discussion and analysis of the Westfall Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- < The assets of Westfall Local School District exceeded its liabilities at June 30, 2004 by \$9,352,845. This balance was comprised of a \$9,725,668 balance in capital assets net of related debt and net asset amounts restricted for specific purposes and a deficit balance of \$1,297,992 in unrestricted net assets.
- < In total, net assets of governmental activities decreased by \$625,456, which represents a 6.27 percent decrease from 2003.
- < General revenues accounted for \$11,329,032 or 85.89 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,861,758 or 14.11 percent of total revenues of \$13,190,790.
- < The District had \$13,816,246 in expenses related to governmental activities; \$1,861,758 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) and prior year net assets of \$11,954,488 were used to provide for the remainder of these programs.
- < The District recognizes two major governmental funds: the General and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$10,554,504 in revenues and \$10,861,347 in expenditures in fiscal year 2004.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

Using this Annual Report

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

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

Reporting the District as a Whole

Government-Wide Financial Statements

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

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

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

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

Proprietary Funds

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

Fiduciary Funds

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

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.

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2004 compared to fiscal year 2003:

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$5,226,478	\$6,215,437
Capital Assets, Net	16,089,829	16,350,545
<i>Total Assets</i>	21,316,307	22,565,982
<u>Liabilities:</u>		
Long-Term Liabilities	7,256,684	7,323,237
Other Liabilities	4,706,778	5,264,444
<i>Total Liabilities</i>	11,963,462	12,587,681
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	9,725,668	10,004,879
Restricted	925,169	711,042
Unrestricted	(1,297,992)	(737,620)
<i>Total Net Assets</i>	\$9,352,845	\$9,978,301

Current and other assets decreased \$988,959 from fiscal year 2003 due to a decrease in cash and cash equivalents held by the District and a decrease in Taxes Receivable due to the expiration of a tax levy in fiscal year 2005. Capital assets decreased by \$260,716 due to current year depreciation.

Current (other) liabilities decreased by \$557,666 or 10.59 percent due to a decrease in deferred revenue related to taxes receivable, due to the expiration of a tax levy in fiscal year 2005.

WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)

Long-term liabilities decreased by \$66,553 as the result of scheduled payments made on the District's debt obligations.

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

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

The remaining balance of (\$1,297,992) is unrestricted assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors. The unrestricted net assets are negative due to the amount of liabilities accrued and the amount of net assets restricted or invested in capital assets.

Table 2 shows the changes in net assets for fiscal year 2004 since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Changes in Net Assets

	<u>Governmental Activities 2004</u>
<u>Revenues:</u>	
<i>Program Revenue:</i>	
Charges for Services and Sales	\$829,666
Operating Grants and Contributions	1,032,092
<i>General Revenue:</i>	
Property Taxes	3,836,032
Unrestricted Grants and Entitlements	6,795,809
Payments in Lieu of Taxes	518,344
Gifts and Donations	22,443
Investment Earnings	10,817
Miscellaneous	145,587

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

<i>Total Revenues</i>	13,190,790
<u>Expenses:</u>	
<i>Program Expenses:</i>	
<i>Instruction:</i>	
Regular	6,106,876
Special	1,268,048
Vocational	18,055
Table 2	
Changes in Net Assets	
	2004
<i>Support Services:</i>	
Pupils	363,257
Instructional Staff	901,134
Board of Education	82,420
Administration	1,333,085
Fiscal	327,156
Business	62,534
Operation and Maintenance of Plant	933,029
Pupil Transportation	1,034,732
Central	40,806
<i>Operation of Non-Instructional Services:</i>	
Food Service	595,758
Extracurricular Activities	387,979
Interest and Fiscal Charges	361,377
<i>Total Expenses</i>	13,816,246
<i>Change in Net Assets</i>	(625,456)
Net Assets – Beginning of Year	9,978,301
Net Assets – End of Year	\$9,352,845

WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)

The most significant program expenses for the District are Regular Instruction, Administration, Special Instruction, and Pupil Transportation. These programs account for 70.52 percent of the total governmental activities. Regular Instruction, which accounts for 44.20 percent of the total, represents costs associated with providing general educational services. Administration, which represents 9.65 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Special Instruction, which represents 9.18 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Pupil Transportation, which represents 7.49 percent of the total cost, represents costs associated with transporting students to and from school, as well as activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 80.60 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has experienced a declining financial condition. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 29.08 percent and intergovernmental revenue made up 59.34 percent of the total revenue for the governmental activities in fiscal year 2004.

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

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2004, the District received \$6,300,033 through the State's foundation program, which represents 47.76 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.51 percent of governmental program expenses. Support services expenses make up 36.75 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to fiscal year 2003 are not available.

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
<i>Program Expenses:</i>		
Instruction	\$7,392,979	\$6,557,557
Support Services	5,078,153	4,760,088
Operation of Non-Instructional Services	595,758	74,429
Extracurricular Activities	387,979	201,131
Interest and Fiscal Charges	361,377	361,283
Total Expenses	<u>\$13,816,246</u>	<u>\$11,954,488</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$13,463,815 and expenditures of \$13,574,496.

Total governmental funds fund balance decreased by \$110,681. The decrease in fund balance for the year was most significant in the General Fund, with a decrease of \$38,688 reflecting expenditures for general operations exceeding revenue received.

The District should remain stable in fiscal years 2005 through 2009, based upon most recent forecast. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2004, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

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

For the General Fund, the final budget basis revenue was \$10,515,285 representing a \$111,101 decrease from the original budget estimates of \$10,626,386. The final budget reflected a 1.06 percent decrease from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$11,266,246 representing a \$203,040 decrease from the original budget estimate of \$11,469,286. The final budget reflected a 1.7 percent increase from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$20.7 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$4.6 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004

	<u>Governmental Activities</u>	
	2004	2003
<i>Nondepreciable Capital Assets:</i>		
Land	\$118,800	\$125,500
<i>Depreciable Capital Assets:</i>		
Buildings and Improvements	15,784,398	3,303,462
Furniture, Fixtures and Equipment	3,326,582	3,059,104
Vehicles	1,511,052	1,496,622
Construction in Progress	0	12,777,436
<i>Total Capital Assets</i>	20,740,832	20,762,124
<i>Accumulated Depreciation:</i>		
Buildings and Improvements	(1,691,549)	(1,481,566)
Furniture, Fixtures and Equipment	(2,098,224)	(2,036,564)
Vehicles	(861,230)	(893,449)
<i>Total Accumulated Depreciation</i>	(4,651,003)	(4,411,579)
<i>Capital Assets, Net</i>	\$16,089,829	\$16,350,545

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements. (Note 9)

Debt Administration

At June 30, 2004, the District had \$6,177,863 in general obligation debt outstanding with \$200,000 due within one year. Table 5 summarizes notes and loans outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2004	2003
General Obligation Bonds	\$6,177,863	\$6,345,667

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements. (Note 14)

Current Issues

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

As indicated in the preceding financial information, the District relies on the State's foundation program for nearly half of their funding. In the spring of 2003, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2003 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court will have two new Justices beginning in calendar year 2004 and the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

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

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

In 2004, the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)
(Continued)*

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2003 through 2006; after this a phase out formula would begin.

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

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

Contacting the District's Financial Management

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

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WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,269,497
Property Taxes Receivable	3,813,760
Accounts Receivable	102
Intergovernmental Receivable	124,076
Accrued Interest Receivable	60
Inventory Held for Resale	17,435
Materials and Supplies Inventory	1,548
Nondepreciable Capital Assets	118,800
Depreciable Capital Assets, Net	<u>15,971,029</u>
 <i>Total Assets</i>	 <u>21,316,307</u>
 <u>Liabilities:</u>	
Accounts Payable	20,504
Accrued Wages and Benefits	1,003,787
Intergovernmental Payable	367,071
Accrued Interest Payable	29,212
Deferred Revenue	3,105,530
Claims Payable	180,674
<i>Long-Term Liabilities:</i>	
Due within One Year	326,992
Due in More Than One Year	<u>6,929,692</u>
 <i>Total Liabilities</i>	 <u>11,963,462</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	9,725,668
<i>Restricted for:</i>	
Capital Outlay	239,106
Debt Service	255,812
Other Purposes	430,251
Unrestricted	<u>(1,297,992)</u>
 <i>Total Net Assets</i>	 <u><u>\$9,352,845</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
<u>Governmental Activities:</u>	Governmental Activities			
<i>Instruction:</i>				
Regular	\$6,106,876	\$172,485	\$508,413	(\$5,425,978)
Special	1,268,048	18,107	135,994	(1,113,947)
Vocational	18,055	423	0	(17,632)
<i>Support Services:</i>				
Pupils	363,257	6,519	78,724	(278,014)
Instructional Staff	901,134	37,339	100,326	(763,469)
Board of Education	82,420	1,901	1,532	(78,987)
Administration	1,333,085	31,458	5,127	(1,296,500)
Fiscal	327,156	7,148	0	(320,008)
Business	62,534	1,470	0	(61,064)
Operation and Maintenance of Plant	933,029	21,704	0	(911,325)
Pupil Transportation	1,034,732	23,530	0	(1,011,202)
Central	40,806	657	630	(39,519)
<i>Operation of Non-Instructional Services:</i>				
Food Service	595,758	319,983	201,346	(74,429)
Extracurricular Activities	387,979	186,848	0	(201,131)
Interest and Fiscal Charges	361,377	94	0	(361,283)
<i>Total Governmental Activities</i>	\$13,816,246	\$829,666	\$1,032,092	(11,954,488)

General Revenues:

Property Taxes Levied for:

General Purposes	3,023,927
Debt Service	450,346
Capital Outlay	361,759
Grants and Entitlements not Restricted to Specific Programs	6,795,809
Payments in Lieu of Taxes	518,344
Gifts and Donations	22,443
Investment Earnings	10,817
Miscellaneous	145,587

Total General Revenues 11,329,032

Change in Net Assets (625,456)

Net Assets at Beginning of Year - As Restated (See Note 3) 9,978,301

Net Assets at End of Year \$9,352,845

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$427,173	\$203,204	\$608,440	\$1,238,817
Property Taxes Receivable	2,981,017	471,018	361,725	3,813,760
Accounts Receivable	102	0	0	102
Intergovernmental Receivable	0	0	124,076	124,076
Accrued Interest Receivable	30	0	30	60
Interfund Receivable	269,637	0	0	269,637
Inventory Held for Resale	0	0	17,435	17,435
Materials and Supplies Inventory	1,141	0	407	1,548
<i>Restricted Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	15,531	0	0	15,531
<i>Total Assets</i>	<u>\$3,694,631</u>	<u>\$674,222</u>	<u>\$1,112,113</u>	<u>\$5,480,966</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$8,831	\$0	\$11,673	\$20,504
Accrued Wages and Benefits	908,125	0	95,662	1,003,787
Intergovernmental Payable	150,988	0	13,317	164,305
Interfund Payable	0	0	269,637	269,637
Deferred Revenue	2,632,295	418,074	325,594	3,375,963
Compensated Absences Payable	14,115	0	0	14,115
<i>Total Liabilities</i>	<u>3,714,354</u>	<u>418,074</u>	<u>715,883</u>	<u>4,848,311</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	10,034	0	9,339	19,373
Reserved for Property Taxes	357,786	61,498	62,213	481,497
Reserved for Set-Asides	15,531	0	0	15,531
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	(403,074)	0	0	(403,074)
Special Revenue Funds	0	0	163,793	163,793
Debt Service Fund	0	194,650	0	194,650
Capital Projects Funds	0	0	160,885	160,885
<i>Total Fund Balances</i>	<u>(19,723)</u>	<u>256,148</u>	<u>396,230</u>	<u>632,655</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,694,631</u>	<u>\$674,222</u>	<u>\$1,112,113</u>	<u>\$5,480,966</u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	\$632,655
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,089,829
Some of the District's revenues will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Delinquent Property taxes	240,634
Intergovernmental	29,799
Total	270,433
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(191,970)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds	(6,177,863)
Accrued interest	(29,212)
Capital leases	(186,299)
Compensated absences	(878,407)
Total liabilities	(7,271,781)
The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are not included in governmental activities in the statement of net assets.	(176,321)
<i>Net Assets of Governmental Activities</i>	\$9,352,845

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,959,872	\$450,354	\$408,067	\$3,818,293
Intergovernmental	6,678,605	50,320	1,121,585	7,850,510
Interest	8,840	1,179	798	10,817
Tuition and Fees	245,935	0	0	245,935
Gifts and Donations	8,110	0	14,333	22,443
Extracurricular Activities	9,989	0	253,759	263,748
Charges for Services	0	0	319,983	319,983
Payments in Lieu of Taxes	518,344	0	0	518,344
Miscellaneous	124,809	0	20,778	145,587
<i>Total Revenues</i>	<u>10,554,504</u>	<u>501,853</u>	<u>2,139,303</u>	<u>13,195,660</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	5,249,067	0	661,037	5,910,104
Special	829,437	0	135,994	965,431
Vocational	18,010	0	0	18,010
<i>Support Services:</i>				
Pupils	305,927	0	78,315	384,242
Instructional Staff	685,852	0	130,601	816,453
Board of Education	80,888	0	1,532	82,420
Administration	1,315,974	0	8,148	1,324,122
Fiscal	290,214	9,466	18,831	318,511
Business	62,534	0	0	62,534
Operation and Maintenance of Plant	850,902	0	77,539	928,441
Pupil Transportation	927,820	0	92,576	1,020,396
Central	27,947	0	12,166	40,113
Operation of Non-Instructional Services	0	0	555,287	555,287
Extracurricular Activities	178,079	0	189,655	367,734
Capital Outlay	0	0	215,017	215,017
<i>Debt Service:</i>				
Principal	35,641	190,000	0	225,641
Interest	3,055	336,985	0	340,040
<i>Total Expenditures</i>	<u>10,861,347</u>	<u>536,451</u>	<u>2,176,698</u>	<u>13,574,496</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(306,843)</u>	<u>(34,598)</u>	<u>(37,395)</u>	<u>(378,836)</u>
<u>Other Financing Sources:</u>				
Proceeds from the Sale of Capital Assets	46,215	0	0	46,215
Inception of Capital Lease	221,940	0	0	221,940
<i>Total Other Financing Sources</i>	<u>268,155</u>	<u>0</u>	<u>0</u>	<u>268,155</u>
<i>Net Change in Fund Balances</i>	(38,688)	(34,598)	(37,395)	(110,681)
<i>Fund Balances at Beginning of Year - As Restated (See Note 3)</i>	<u>18,965</u>	<u>290,746</u>	<u>433,625</u>	<u>743,336</u>
<i>Fund Balances at End of Year</i>	<u>(\$19,723)</u>	<u>\$256,148</u>	<u>\$396,230</u>	<u>\$632,655</u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$110,681)

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 (\$680,279) exceeded capital outlays (\$555,332) in the current period. (124,947)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (135,769)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:

Property taxes	17,740
Intergovernmental	(22,611)
	(4,871)

Total revenues not reported in the funds (4,871)

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 225,641

In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. (21,337)

Proceeds of capital lease transactions are recorded as revenue in the funds however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (221,940)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	85,049
Increase in intergovernmental payables	(177,855)
	(92,806)

Total expenditures not reported in the funds (92,806)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental expenditures and the related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the activities. (138,746)

Change in Net Assets of Governmental Activities (\$625,456)

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property Taxes	\$3,230,463	\$2,912,181	\$2,912,181	\$0
Intergovernmental	6,633,263	6,678,605	6,678,605	0
Interest	20,000	8,810	8,810	0
Tuition and Fees	128,000	245,865	245,865	0
Gifts and Donations	0	8,110	8,110	0
Extracurricular Activities	10,000	9,989	9,989	0
Payments in Lieu of Taxes	505,815	518,344	518,344	0
Miscellaneous	98,845	133,381	133,381	0
<i>Total Revenues</i>	<u>10,626,386</u>	<u>10,515,285</u>	<u>10,515,285</u>	<u>0</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	5,851,239	5,648,199	5,251,046	397,153
Special	788,759	788,759	812,331	(23,572)
Vocational	0	0	18,010	(18,010)
<i>Support Services:</i>				
Pupils	260,956	260,956	300,716	(39,760)
Instructional Staff	692,614	692,614	687,411	5,203
Board of Education	111,206	111,206	84,196	27,010
Administration	1,129,049	1,129,049	1,134,047	(4,998)
Fiscal	264,700	264,700	290,581	(25,881)
Business	50,613	50,613	62,534	(11,921)
Operation and Maintenance of Plant	986,792	986,792	854,535	132,257
Pupil Transportation	1,009,472	1,009,472	928,142	81,330
Central	72,350	72,350	28,541	43,809
Extracurricular Activities	251,536	251,536	182,025	69,511
<i>Total Expenditures</i>	<u>11,469,286</u>	<u>11,266,246</u>	<u>10,634,115</u>	<u>632,131</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(842,900)</u>	<u>(750,961)</u>	<u>(118,830)</u>	<u>632,131</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	54,800	46,215	46,215	0
Advances In	215,000	215,000	215,000	0
Advances Out	0	0	(210,000)	(210,000)
<i>Total Other Financing Sources (Uses)</i>	<u>269,800</u>	<u>261,215</u>	<u>51,215</u>	<u>(210,000)</u>
<i>Excess of Revenues and Other Financing Sources</i> <i>(Under) Expenditures and Other Financing Uses</i>	<u>(573,100)</u>	<u>(489,746)</u>	<u>(67,615)</u>	<u>422,131</u>
<i>Fund Balance at Beginning of Year</i>	262,309	262,309	262,309	0
Prior Year Encumbrances Appropriated	<u>310,792</u>	<u>310,792</u>	<u>310,792</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1</u>	<u>\$83,355</u>	<u>\$505,486</u>	<u>\$422,131</u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$15,149
<i>Total Assets</i>	<u>15,149</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	180,674
Intergovernmental Payable	<u>10,796</u>
<i>Total Liabilities</i>	<u>191,470</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>(\$176,321)</u></u>

See accompanying notes to the basic financial statements

WESTFALL LOCAL SCHOOL DISTRICT
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004*

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Charges for Services	\$1,276,124
<u>Operating Expenses:</u>	
Claims	1,414,870
<i>Change in Net Assets</i>	(138,746)
<i>Net Assets at Beginning of Year</i>	(37,575)
<i>Net Assets at End of Year</i>	(\$176,321)

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$1,439,582
Cash Payments for Claims	<u>(1,475,357)</u>
Net Cash from Operating Activities	<u>(35,775)</u>
Net Decrease in Cash and Cash Equivalents	(35,775)
Cash and Cash Equivalents at Beginning of Year	<u>50,924</u>
Cash and Cash Equivalents at End of Year	<u><u>\$15,149</u></u>
<u>Reconciliation of Operating (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Loss	(\$138,746)
<u>Adjustments to Reconcile Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>(Increase) Decrease in Assets:</i>	
Accounts Receivable	121,705
Prepaid Items	41,753
<i>Increase (Decrease) in Liabilities:</i>	
Intergovernmental Payable	10,796
Claims Payable	<u>(71,283)</u>
Total Adjustments	<u>102,971</u>
Net Cash from Operating Activities	<u><u>(\$35,775)</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$32,871</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Intergovernmental Payable	3,778
Due to Students	<u>29,093</u>
<i>Total Liabilities</i>	<u><u>\$32,871</u></u>

See accompanying notes to the basic financial statements.

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**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

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

The District was established through the consolidation of existing land areas and school districts. It is staffed by 76 non-certificated employees, 107 certificated full-time teaching personnel, and 10 administrative employees who provide services to 1,655 students.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Westfall Local School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with three jointly governed organizations: the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center (COSERRC), and Ross County School Employees Insurance Consortium. The District is also associated with one insurance purchasing pool: Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP). These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

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

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

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

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

Proprietary Fund

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2004 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.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2004, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$8,840, which includes \$4,859 assigned from other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

F. Inventory

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. As of June 30, 2004, the restricted assets reported by the District in the General Fund represents cash and cash equivalents set aside for statutory reserves.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	100 years
Improvements	8 - 20 years
Furniture, Fixtures and Equipment	8 - 20 years
Vehicles	10 years

I. Interfund Balances

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

J. Compensated Absences

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

J. Compensated Absences (Continued)

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

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

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

K. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

L. Net Assets

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

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

M. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and set asides.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

M. Fund Balance Reserves (Continued)

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

N. Operating Revenues and Expenses

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

O. Interfund Transactions

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

P. Estimates

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

Q. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

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

Q. Budgetary Process (Continued)

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

Changes in Accounting Principles

For fiscal year 2004, the District has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*,” GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, GASB Statement No. 39, “*Determining Whether Certain Organizations are Component Units*”, GASB Statement No. 41, “*Budgetary Comparison Schedules – Perspective Differences*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”.

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

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “*The Financial Reporting Entity*”. The implementation of this new statement had no effect on the District’s financial statements for fiscal year 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent and entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the District for fiscal year 2004.

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES -
(Continued)

Changes in Accounting Principles (Continued)

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balances

The restatements for a fund reclassification and GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

	General	Bond Retirement	Nonmajor Governmental	Total
Fund Balances, June 30, 2003	\$18,965	\$290,746	\$616,443	\$926,154
Fund Reclassification	0	0	(182,818)	(182,818)
Adjusted Fund Balances, June 30, 2003	\$18,965	\$290,746	\$433,625	743,336
<i>GASB 34 Adjustments:</i>				
Property Taxes Receivable				222,894
Capital Assets				16,350,545
Accrued Interest Payable				(30,071)
Intergovernmental Receivable				52,410
<i>Long-Term Obligations:</i>				
Compensated Absences Payable				(977,571)
General Obligation Bonds				(6,345,667)
Internal Service Fund				(37,575)
Governmental Activities Net Assets, June 30, 2003				\$9,978,301

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 4 - ACCOUNTABILITY

Accountability

The following funds had a deficit in either their fund balance or net assets as of June 30, 2004:

	Deficit Fund Balance/ Net Assets
General Fund	\$19,723
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	200,877
Disadvantaged Pupil Impact Aid	238
IDEA Part B	2,298
Title I	28,545
Improving Teacher Quality	8,096
Internal Service Fund	176,321

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	
GAAP Basis	(\$38,688)
<i>Adjustments:</i>	
Revenue Accruals	(39,219)
Expenditure Accruals	209,514
Encumbrances	17,718
Other Sources (Uses)	<u>(216,940)</u>
Budget Basis	<u><u>(\$67,615)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the 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 money deposited with the institution.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$3,418 in undeposited cash on hand which is included on the basic financial statements of the District, as part of the "Equity in Pooled Cash and Cash Equivalents".

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,201,148 and the bank balance was \$1,299,996. Of the bank balance, \$120,000 was covered by federal depository insurance, the remaining \$1,179,996 was uninsured and uncollateralized as defined by GASB although it was collateralized by securities specifically pledged by the financial institution to the District. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an uncategorized investment since it is not evidenced by securities that exist in physical or book entry form.

	Carrying Value	Fair Value
STAROhio	\$97,802	\$97,802

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,302,368	\$0
<i>Investments:</i>		
STAROhio	(97,802)	97,802
Total	1,204,566	97,802
Petty Cash on Hand	(3,418)	0
GASB Statement No. 3	\$1,201,148	\$97,802

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 7 - PROPERTY TAXES

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

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents the June 2004 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2004 was \$481,497 and is recognized as revenue. Of this total amount, \$357,786 was available to the General Fund, \$61,498 was available to the Bond Retirement Fund, \$54,260 was available to the Permanent Improvement Nonmajor Capital Projects Fund and \$7,953 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 7 - PROPERTY TAXES - (Continued)

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$126,091,890	81.18%	\$129,505,640	84.36%
Public Utility Personal	24,886,670	16.02%	18,908,940	12.32%
Tangible Personal Property	4,355,631	2.80%	5,103,954	3.32%
Total Assessed Value	\$155,334,191	<u>100.00%</u>	\$153,518,534	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.30		\$34.85	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, accounts (student fees), interfund, interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivable follows:

Governmental Activities:	
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$17,473
IDEA Part B	73,165
Title I	25,492
Drug Free Schools	7,946
Total Nonmajor Special Revenue Funds	<u>124,076</u>
Total Intergovernmental Receivable	<u><u>\$124,076</u></u>

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 9 - CAPITAL ASSETS

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

Asset Category	Restated Balance at July 1, 2003	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2004
<i>Nondepreciable Capital Assets:</i>				
Land	\$125,500	\$0	(\$6,700)	\$118,800
Construction in Progress	12,777,436	0	(12,777,436)	0
<i>Depreciable Capital Assets:</i>				
Buildings and Improvements	3,303,462	12,777,436	(296,500)	15,784,398
Furniture, Fixtures and Equipment	3,059,104	384,582	(117,104)	3,326,582
Vehicles	1,496,622	170,750	(156,320)	1,511,052
Total Depreciable Capital Assets	7,859,188	13,332,768	(569,924)	20,622,032
Total Capital Assets	20,762,124	13,332,768	(13,354,060)	20,740,832
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	(1,481,566)	(440,360)	230,377	(1,691,549)
Furniture, Fixtures and Equipment	(2,036,564)	(131,450)	69,790	(2,098,224)
Vehicles	(893,449)	(108,469)	140,688	(861,230)
Total Accumulated Depreciation	(4,411,579)	(680,279)	440,855	(4,651,003)
Total Net Capital Assets	\$16,350,545	\$12,652,489	(\$12,913,205)	\$16,089,829

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$199,822
Special	339,839
Vocational	45
<i>Support Services:</i>	
Pupils	741
Instructional Staff	19,480
Administration	4,799
Fiscal	1,615
Operation and Maintenance of Plant	7,334
Pupil Transportation	99,217
Central	693
Operation of Non-Instructional Services	3,481
Extracurricular Activities	3,213
	3,213
Total Depreciation Expense	\$680,279

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with various commercial carriers for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 10 - RISK MANAGEMENT – (Continued)

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

For fiscal year 2004, the District participated in the Shakley Unservile Inc. Worker’s Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

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

The claims liability of \$180,674 reported at June 30, 2004 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$242,486	\$1,255,560	\$1,246,089	\$251,957
2004	251,957	1,404,074	1,475,357	180,674

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$188,519, \$238,944, and \$238,608, respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$94,260 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally in a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage of up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14 % employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$692,751, \$823,128 and \$754,752, respectively; 83.33 % has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$115,459 represents the unpaid contribution for fiscal year 2004.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, two members of the Board of Education have elected Social Security.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. The Revised Code grants authority to STRS to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the average paid from STRS Ohio funds shall be included in the employer contribution rate, currently 1% of covered payroll.

The State Teachers Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$53,289 during fiscal year 2004. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit participants.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14% contributions is allocated to providing health care benefits. At June 30, 2004, the health care allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at 24,500. This surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were \$220,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement Systems' net assets available for payment of health care benefits were 62,000. For the District, the amount to fund health care benefits, including surcharge, equaled \$227,101 during the 2004 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Health, Prescription Drug and Dental Insurance

In July 1994, the District joined the Ross County School Employees Insurance Consortium (RCSEIC) to self insure its medical claims. RCSEIC currently includes 14 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent.

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 14 - LONG-TERM LIABILITIES

The balance of the District's governmental activities long-term obligations at June 30, 2004 has been restated. The accreted interest on capital appreciation bonds in the amount of \$204,935 have been restated to properly reflect future debt requirements. Changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Restated Principal Outstanding at July 1, 2003	Additions	Deductions	Principal Outstanding at June 30, 2004	Amount Due In One Year
<i>Governmental Activities</i>					
General Obligation Bonds:					
2000 School Facilities Construction					
4.60 - 13.01%					
Serial Bonds	\$2,910,000	\$0	\$190,000	\$2,720,000	\$200,000
Term Bonds	3,060,000	0	0	3,060,000	0
Capital Appreciation Bonds	375,667	22,196	0	397,863	0
Total 2000 School Facilities	6,345,667	22,196	190,000	6,177,863	200,000
Construction				0	
Capital Leases	0	221,940	35,641	186,299	72,877
Compensated Absences	977,571	544,771	629,820	892,522	54,115
Total Governmental Activities Long-Term Obligations	\$7,323,238	\$788,907	\$855,461	\$7,256,684	\$326,992

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

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

Year Ending June 30,	Amount
2017	\$365,000
2018	385,000
2019	410,000
2020	435,000
2021	460,000
2022	490,000

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

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

Redemption dates (Dates Inclusive)	Redemption Prices
June 1, 2010 and thereafter	100%

The capital appreciation bonds will mature in the years ending June 30, 2009 through 2010. The maturity amount of the bonds is \$530,000. For fiscal year 2004, \$22,196 was accreted for a total bond value of \$397,863.

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

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

Fiscal Year Ending June 30	Serial Bonds Principal	Serial Bonds Interest	Term Bonds Principal	Term Bonds Interest	Capital Appreciation
2005	\$200,000	\$332,140	\$0	\$0	\$0
2006	210,000	321,840	0	0	0
2007	240,000	310,920	0	0	0
2008	250,000	298,320	0	0	0
2009	0	0	0	0	265,000
2010 - 2014	1,150,000	1,050,088	0	0	265,000
2015 - 2023	670,000	484,893	3,060,000	770,000	0
Total	<u>\$2,720,000</u>	<u>\$2,798,201</u>	<u>\$3,060,000</u>	<u>\$770,000</u>	<u>\$530,000</u>

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2004, are voted debt margin of \$7,638,806 and an unvoted debt margin of \$153,519.

NOTE 15 - CAPITAL LEASES

The District has entered into an agreement to lease fitness equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The new capital lease is reflected in the statement of revenues, expenditures and changes in fund balance for governmental funds as a functional expenditures and "Inception of Capital Lease". Capital lease payments are reflected as debt service expenditures in the governmental funds. The capital leased asset, consisting of fitness equipment, has been capitalized in the amount of \$221,940 in the governmental activities, which represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2004 were \$35,641 in the governmental funds.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 15 - CAPITAL LEASES - (Continued)

The District's future minimum lease payments and present value of net minimum lease payments required under these capital lease obligations as of June 30, 2004 are as follows:

Year Ended December 31,	Capital Lease Payments
2005	\$77,392
2006	77,393
2007	38,696
Total Future Minimum Lease Payments	193,481
Less: Amount Representing Interest	(7,182)
Present Value of Net Minimum Lease Payments	\$186,299

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$269,637	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Food Service	0	210,000
IDEA Part B	0	51,691
Drug Free Schools	0	7,946
Total Nonmajor Special Revenue Funds	0	269,637
Total	\$269,637	\$269,637

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

NOTE 17 - STATUTORY SET-ASIDES

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 17 - STATUTORY SET-ASIDES - (Continued)

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

	Textbooks	Capital Acquisition	Totals
Set-Aside Reserve Balance as of June 30, 2003	\$0	\$0	\$0
Current Year Set-Aside Requirement	221,294	221,294	442,588
Qualifying Disbursements	(205,763)	(480,438)	(686,201)
Totals	15,531	(259,144)	(243,613)
Set-Aside Balance as of June 30, 2004	\$15,531	\$0	\$15,531
Total Restricted Assets			\$15,531

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (MEC)

Metropolitan Educational Council, is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District. During 2004, the District paid \$25,208 to MEC.

Ross County School Employees Insurance Consortium (RCSEIC)

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)*

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Central Ohio Special Education Regional Resource Center (COSERRC)

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

NOTE 19 - INSURANCE PURCHASING POOL

Shakley Unservile Inc. Worker's Compensation Group Rating Plan

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

NOTE 20 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

NOTE 21 - SCHOOL FUNDING DECISION

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

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

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**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550	\$0	\$73,493	\$0	\$73,493
National School Lunch Program	049106-LLP4-2003	10.555	53,531		53,531	
National School Lunch Program	049106-LLP4-2004	10.555	102,325	0	102,325	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>155,856</u>	<u>73,493</u>	<u>155,856</u>	<u>73,493</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	049106-C1S1-2003	84.010	30,766	0	43,526	0
Title I Grants to Local Education Agencies	049106-C1S1-2004	84.010	345,304	0	326,287	0
Total Title I Grants to Local Education Agencies			<u>376,070</u>	<u>0</u>	<u>369,813</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education Grants to States	049106-6BSF-2003-P	84.027	58,870	0	19,362	0
Special Education Grants to States	049106-6BSF-2004-P	84.027	161,855	0	213,546	0
Total Special Education Grants			<u>220,725</u>	<u>0</u>	<u>232,908</u>	<u>0</u>
Special Education - Preschool Grant	049106-PGS1-2003-P	84.173	6,056	0	0	0
Special Education - Preschool Grant	049106-PGS1-2004-P	84.713	7,390	0	7,390	0
Total Special Education - Preschool Grant			<u>13,446</u>	<u>0</u>	<u>7,390</u>	<u>0</u>
Total Special Education Cluster			<u>234,171</u>	<u>0</u>	<u>240,298</u>	<u>0</u>
Safe and Drug-Free Schools and Communities	049106-DRS1-2003	84.186	1,321	0	1,572	0
Safe and Drug-Free Schools and Communities	049106-DRS1-2004	84.186	3,346	0	11,292	0
Total Safe and Drug-Free Schools and Communities			<u>4,667</u>	<u>0</u>	<u>12,864</u>	<u>0</u>
Innovative Educational Program Strategies	049106-C2S1-2003	84.298	472	0	597	0
Innovative Educational Program Strategies	049106-C2S1-2004	84.298	12,228	0	12,228	0
Total Innovative Education Program Strategies			<u>12,700</u>	<u>0</u>	<u>12,825</u>	<u>0</u>
Technology Literacy Challenge Fund Grants	049106-TJS1-2003	84.318	10,036		10,036	
Class Size Reduction	049106-CRS1-2002	84.340	34,144	0	0	0
Improving Teacher Quality State Grants	049106-TRS1-2003	84.367	20,367	0	8,372	0
Improving Teacher Quality State Grants	049106-TRS1-2004	84.367	83,245	0	77,782	0
Total Improving Teacher Quality State Grants			<u>103,612</u>	<u>0</u>	<u>86,154</u>	<u>0</u>
Total Department of Education			<u>775,400</u>	<u>0</u>	<u>731,990</u>	<u>0</u>
Total Federal Awards			<u><u>\$931,256</u></u>	<u><u>\$73,493</u></u>	<u><u>\$887,846</u></u>	<u><u>\$73,493</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

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

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



**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**

Westfall Local School District
Pickaway County
19463 Pherson Pike
Williamsport, Ohio 43164

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 Westfall Local School District, Pickaway County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 15, 2005, wherein we noted that the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated June 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-002 and 2004-003. In a separate letter to the District's management dated June 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. 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

June 15, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Westfall Local School District
Pickaway County
19463 Pherson Road
Williamsport, Ohio 43164

To the Board of Education:

Compliance

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

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

As described in items 2004-004 and 2004-005 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding period of availability and allowability applying to its Title I Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

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The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-006. In a separate letter to the District's management dated June 15, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention resulting in significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-004 and 2004-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 15, 2005

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

Finding Number	2004-001
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Reportable Condition

Segregation of Duties-Charges for Services-Food Service

The District does not presently separate the functions of record keeping, authorization, the execution or posting of transactions, and the custody or depositing of funds within the food service collection cycle. The designated cook for each building collects the prepaid lunch envelopes on a daily basis. This person counts the money, posts the receipts to the Café Terminal System (i.e. cash register system) and prepares the deposit slip. These funds are not presently recounted by a separate individual. Additionally, there is no compensating management control over this cycle.

The District should separate the posting of the collections from the depositing and the recording keeping functions. Failure to segregate the duties of collecting, posting, and depositing prepaid lunch sales could result in misappropriation of assets.

We recommend the District segregate the collecting, posting, and depositing of prepaid lunch sales, and the record keeping of these transactions. We also recommend that the Food Service Coordinator be appointed to monitor, review and reconcile the above information independent from the Food Service Cooks. We also noted this matter in the prior audit period.

Finding Number	2004-002
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Material Noncompliance

Appropriations versus Estimated Resources

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

At June 30, 2004, the following fund had appropriations exceed estimated resources:

Fund	Certificate of Estimated Resources	Board Approved Appropriations	Variance
Special Education	\$180,506	\$250,072	\$(69,566)

We recommend the District review estimated resources prior to approving or amending appropriations. If estimated resources are not sufficient to support planned appropriations, the District should modify appropriations or request an amended certificate, if new revenue sources are identified.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

Finding Number	2004-003
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Material Noncompliance

Appropriations versus Expenditures

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

The District had budgetary expenditures exceed appropriations at June 30, 2004 in the following funds:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
Food Service	\$514,493	\$692,570	\$(178,077)
District Managed Activities	164,878	230,151	(65,273)

The District had budgetary expenditures exceeded appropriations at January 31, 2004 in the following fund:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
District Managed Activities	\$45,611	\$146,695	\$(101,084)

The District had budgetary expenditures exceeded appropriations at August 30, 2003 in the following fund:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
District Managed Activities	\$45,611	\$77,550	\$(31,939)

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board of Education to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

We recommend that the District only expend funds within the approved appropriations.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2004-004
CFDA Title and Number	84.010-Title I Grants to Local Educational Agencies
Federal Award Number / Year	C1S1-2003 and C1S1-2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Allowability- Questioned Cost/Reportable Condition/Noncompliance

Office of Management and Budget (OMB) Circular A-87 Attachment A subsection C. 1. j states that under the Basic Guidelines for cost to be allowable they must be adequately documented. Additionally, OMB Circular A-87 Attachment A subsection E. 2. a states that under Direct Cost Guidelines for costs to be chargeable to federal awards, such as payroll related expenditures, these must be for compensation of employees who devoted time and are specifically identifiable to the performance of the award.

The District made adjustments, during the year to the Title I salary line item. There was no documentation as to the reason why these adjustments were made. Additionally, the District could not identify that these expenditures were for the compensation of employees that devoted time specifically to the performance of the award. There were adjustments made to move expenditures from the General Fund salary line item for teachers in the amounts of \$53,164 on June 22, 2004 to the Title I 2004 grant fund. The District stated that these were salary adjustments that were incorrectly coded to the General Fund in the total amount of \$53,164. However, they were only able to identify and support \$28,629 of the adjustments. The \$28,629 was identified as the salary of a second grade teacher who worked in the program but was erroneously charged to the General Fund. The remaining \$24,535 of adjustments from the General Fund was not able to be supported.

The District was unable to provide documentation that these adjustments were allowable for payroll related expenditures for the compensation of employees who devoted time specifically to the performance of the Title I grant award. Total questioned costs for unallowed expenditures are twenty four thousand five hundred thirty five dollars (\$24,535).

We recommend that the District provide supporting documentation for all entries made to the system. We also recommend that all salary and wages charged directly to the grant be supported by documentation that employees charged to the federal awards devoted time specifically to the performance of those awards.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)
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Finding Number	2004-005
CFDA Title and Number	84.010-Title I Grants to Local Educational Agencies
Federal Award Number / Year	C1S1-2003 and C1S1-2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Period of Availability- Questioned Cost/Noncompliance

OMB Circular A-102 Common Rule, as codified by 34 CFR 80.23 and ORC 131.33, state that Federal and state awards may specify a time period during which the subgrantee may use the federal or state funds. Where a funding period is specified, a subrecipient entity may charge to the award only costs resulting from obligations incurred during the funding period. Also, if authorized for the Federal programs, unobligated balances may be carried over and charged for obligations of the subsequent funding period. No carryovers are permitted for state grants. Obligations mean the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or future period.

34 CFR 76.707 requires that obligations for personal services and travel reimbursements occur when services are performed and when the travel is taken, respectively.

Ohio Department of Education (ODE) 2003 Comprehensive Continuous Improvement Planning (CCIP) Consolidated Application for the Title I grant contained a project period end date of June 30, 2003. On June 30, 2003, the only obligated costs of the 2003 grant that had not been liquidated were for employee payroll and related benefits such as dental, vision and medical benefits. The salaries for employees who worked the 2003 fiscal year were obligated by June 30, 2003 and the entire amount was liquidated by the August 22, 2003 payroll. On September 5, 2003, September 19, 2003, October 3, 2003, and October 15, 2003, the District paid employees from the grant year 2003 Title I award. These payments totaling \$23,500 were not obligated within the 2003 grant year obligation period which ended on June 30, 2003. Additionally, expenditures from the 2003 grant after the end of the period of availability included reimbursements for various travel and meeting expenses which totaled \$3,335.

The District also made several adjustments to the fiscal year 2003 Title I accounting records for salaries and fringe benefits line items in May and June, 2004 which was beyond the period of availability. The District made the following adjustments which were not supported:

- The District made a \$10,624 adjustment on May 11, 2004 to move expenditures from the fiscal year 2003 accounting records for Title I to the fiscal year 2004 Title I accounting records for the salary line item.
- The District made a \$7,459 adjustment on June 23, 2004 to move expenditures from the District's General Fund to the fiscal year 2003 Title I accounting records for the salary line item.
- The District made a \$12,267 adjustment on May 11, 2004 to move expenditures from the 2003 Title I accounting records to the 2004 Title I accounting records for the fringe benefit line item.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)
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Finding Number	2004-005 (continued)
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Total questioned costs for expenditures and adjustments made after the period of availability is fifty seven thousand one hundred eighty five dollars (\$23,500+\$3,335+\$10,624+\$7,459+\$12,267).

We recommend that the District use grant funds only for expenditures obligated during the period of availability.

Finding Number	2004-006
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CFDA Title and Number	84.010-Title I Grants to Local Educational Agencies
Federal Award Number / Year	C1S1-2003 and C1S1-2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Reporting- Reportable Condition/Noncompliance

34 CFR Sec. 80.30 (a) states that "grantees and subgrantees are permitted to rebudget within the approved direct cost budget to meet unanticipated requirements and may make limited program changes to the approved project. However, unless waived by the awarding agency, certain types of post-award changes in budgets and projects shall require the prior written approval of the awarding agency." Additionally, 34 CFR 80.30 (c)(1)(ii) states in part that except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever cumulative transfers among direct cost categories, or, if applicable, among separately budgeted functions, or activities which exceed or are expected to exceed ten percent of the current approved budget.

Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1 requires that the final expenditure report be submitted for each project immediately after all financial obligations have been liquidated. This report should reflect amounts actually expended, including obligations liquidated within 90 days of the end of the project period, not obligations encumbered but unliquidated.

The Project Cash Request form for reporting to ODE requires that only actual cash basis expenditures authorized by the approved project application and charges to the project special cost center be reported (report amounts actually expended, not encumbered).

The District accounts for the 2003 and 2004 Title I grant using separate special cost centers within the accounting records; however, the cost centers were not properly utilized making it difficult to determine what expenditures should be reported under each of the 2003 and 2004 fiscal year grants. This caused the District to inaccurately report expenditures on the Project Cash Request Forms and the Final Expenditure Report.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)
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Finding Number	2004-006 (continued)
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As noted below, the District reported total expenditures on the grant year 2003 Final Expenditure Report which agreed to the original budgeted expenditures on the Title I application and the District's ledgers in total; however, the expenditures did not agree by line item. The Final Expenditure report for the grant year 2003 was submitted on September 30, 2003. The report was for the grant period of July 1, 2002 through September 30, 2003, the latest time the liquidation of funds can occur unless approved as a carry over:

Object Code	Final Expenditure Report Submitted 09/30/03	Actual Expenditures at 09/30/03 from District's Ledgers	Variance between Final Expenditure Report and District's Ledgers
Salaries-100	\$ 157,184	\$ 149,384	\$ 7,800
Fringe Benefits-200	\$ 28,416	\$ 39,425	\$ (11,009)
Purchased Services-400	\$ 7,948	\$ 4,739	\$ 3,209
Total	\$ 193,548	\$ 193,548	\$ -

The District exceeded the ten percent variance between the approved budget and actual expenditures as noted below:

Object Code	Budget	Actual Expenditures at 09/30/03 from District's Ledgers	Variance between Budget and Actual Expenditures	Percent of Difference between actual and Approved Budget
Salaries-100	\$ 152,899	\$ 149,384	\$ 3,515	2%
Fringe Benefits-200	\$ 30,938	\$ 39,425	\$ (8,487)	-27%
Purchased Services-400 **	\$ 9,711	\$ 4,739	\$ 4,972	51%
Total	\$ 193,548	\$ 193,548	\$ -	0%

**= Line items reported that exceeded the 10% variance rule

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)
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Finding Number	2004-006 (continued)
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The District reported expenditures in error due as a result of the method that the accounting records are maintained, which includes some of the 2004 costs in the 2003 special cost center. The amounts below indicate variances between the expenditures reported on the Project Cash Request Forms at the time of request and the District's actual cash basis expenditures according to the accounting records:

Project Cash Request Form	Grant Year of Reporting	Amount Reported	District's Accounting Records				Total	Variance
			Actual Expenditures to the Date of the Request					
			2003 Cost Center	2004 Cost Center				
28-Jan-04	2004	\$ 125,335	\$ 29,645	\$ 78,540		\$ 108,185	\$ 17,150	
11-May-04	2004	\$ 230,321	\$ 11,775	\$ 221,442		\$ 233,217	\$ (2,896)	
14-Jun-04	2004	\$ 308,225	\$ 12,115	\$ 258,450		\$ 270,565	\$ 37,660	

This resulted in noncompliance with the Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1 for reporting actual expenditures on the Final Expenditure report, 34 CFR Sec. 80.30 (a) and (c) (1) (ii) for exceeding line items by more than 10 percent of the approved budget, and ODE Project Cash Request form procedures of reporting actual cash basis expenditures.

We recommend that the District only report actual cash basis expenditures at the time funds are requested on the Project Cash Request Form and for cumulative expenditures at the time of filing the Final Expenditure report. We recommend the District implement procedures that will result in complete and accurate reporting. The District should develop a system to segregate grant expenditures in the proper grant year, which would include monitoring these expenditures versus the approved budget by line item.

**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.41D-The District had expenditures that were not certified at the time of the obligation.	Yes	Corrected.
2003-002	Ohio Rev. Code Section 5705.41(B)- The District had expenditures exceeding appropriations	No	Reissued as Finding 2004-003
2003-003	Segregation of Duties- Charges for Services- Food Service	No	Reissued as Finding 2004-001



**Auditor of State
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**WESTFALL LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 18, 2005**