

Westfall Local School District

Pickaway County

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.
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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Westfall Local School District, Pickaway County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 19, 2007

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Westfall Local School District
Table of Contents
For the Fiscal Year Ended June 30, 2006

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet-Governmental Funds	16
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) – General Fund	20
Statement of Net Assets – Proprietary Fund	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	22
Statement of Cash Flows – Proprietary Fund	23
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	24
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Expenditures	54
Notes to Schedule of Federal Awards Expenditures	55
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	56

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Westfall Local School District

Table of Contents

(Continued)

For the Fiscal Year Ended June 30, 2006

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	58
Schedule of Findings and Questioned Costs – OMB Circular A 1-33 Section .505.....	60

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Westfall Local School District, Pickaway County, Ohio, (the District) as of and for the year ended June 30, 2006, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Westfall Local School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.
September 17, 2007

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(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, 2006. 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 reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Westfall Local School District exceeded its liabilities at June 30, 2006 by \$8,023,760. This balance was comprised of a \$6,607,477 balance invested in capital assets net of related debt and \$1,865,360 balance in net asset amounts restricted for specific purposes and a deficit balance of \$449,077 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$361,928, which represents a 4.72 percent increase from 2005.
- ▶ General revenues accounted for \$11,815,051 or 78.46 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,244,180 or 21.54 percent of total revenues of \$15,059,231.
- ▶ The District had \$14,697,303 in expenses related to governmental activities; \$3,244,180 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$11,815,051 were used to provide for the remainder of these programs.
- ▶ The District recognizes three major governmental funds: the General and Bond Retirement Funds and Permanent Improvement. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$11,912,783 in revenues and \$11,692,196 in expenditures in fiscal year 2006.

Using this Annual Report

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

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

Governmental Funds

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

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

Proprietary Funds

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

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. In accordance with GASB 34, fiduciary funds are not included in the government-wide statement.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2006	2005
<u>Assets:</u>		
Current and Other Assets	\$7,368,671	\$6,644,481
Capital Assets, Net	13,343,124	13,491,465
<i>Total Assets</i>	<u>20,711,795</u>	<u>20,135,946</u>
<u>Liabilities:</u>		
Long-Term Liabilities	7,705,190	7,001,021
Other Liabilities	4,982,845	5,473,093
<i>Total Liabilities</i>	<u>12,688,035</u>	<u>12,474,114</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	6,607,477	7,377,984
Restricted	1,865,360	1,401,309
Unrestricted	(449,077)	(1,117,461)
<i>Total Net Assets</i>	<u><u>\$8,023,760</u></u>	<u><u>\$7,661,832</u></u>

Current and other assets increased \$724,190 from fiscal year 2005 due to the difference between an increase in cash and cash equivalents held by the District and a decrease in taxes receivable.

Current (other) liabilities decreased by \$490,248 or 8.96 percent primarily due to a decrease in deferred revenue related to taxes receivable.

Long-term liabilities increased by \$704,169 as the result of new debt obligations.

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

The remaining negative balance of \$449,077 is unrestricted assets. The unrestricted net assets are negative due to the amount of liabilities accrued and the amount of net assets restricted or invested in capital assets.

Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$1,156,377	\$919,803
Operating Grants and Contributions	2,087,803	2,003,348
<i>General Revenue:</i>		
Property Taxes	4,306,456	4,100,091
Unrestricted Grants and Entitlements	6,842,844	6,443,394
Payments in Lieu of Taxes	514,906	506,459
Investment Earnings	21,351	13,349
Miscellaneous	129,494	153,638
<i>Total Revenues</i>	15,059,231	14,140,082
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	6,498,762	6,395,474
Special	1,089,254	979,438
Vocational	24,688	22,859

(Continued)

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2
Changes in Net Assets

	2006	2005
<i>Support Services:</i>		
Pupils	\$343,950	339,452
Instructional Staff	1,098,188	1,062,850
Board of Education	167,882	101,928
Administration	1,201,858	1,149,170
Fiscal	320,253	291,601
Business	64,732	63,705
Operation and Maintenance of Plant	1,091,200	1,073,810
Pupil Transportation	1,000,769	1,016,789
Central	103,167	67,233
<i>Operation of Non-Instructional Services:</i>		
Food Service	635,875	610,053
Extracurricular Activities	418,686	314,236
Interest and Fiscal Charges	638,039	352,797
<i>Total Expenses</i>	14,697,303	13,841,395
<i>Change in Net Assets</i>	361,928	298,687
Net Assets – Beginning of Year	7,661,832	7,363,145
Net Assets – End of Year	\$8,023,760	\$7,661,832

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The most significant program expenses for the District are Regular Instruction, Administration, Instructional Staff, Special Instruction, Operation and Maintenance of Plant and Pupil Transportation. These programs account for 81.51 percent of the total governmental activities. Regular Instruction, which accounts for 44.22 percent of the total, represents costs associated with providing general educational services. Administration, which represents 8.18 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Instructional Staff, which represents 7.47 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students. Special Instruction, which represents 7.41 percent of the total cost, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant represents 7.42 percent of total cost. Pupil Transportation, which represents 6.81 percent of the total cost, represents costs associated with transporting students to and from school, as well as activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 74.04 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 28.60 percent and intergovernmental revenue made up 59.30 percent of the total revenue for the governmental activities in fiscal year 2006.

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 2006, the District received \$7,242,810 through the State's foundation program, which represents 48.10 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 51.80 percent of governmental activities program expenses. Support services expenses make up 36.69 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
<i>Program Expenses:</i>				
Instruction	\$7,612,704	\$6,101,950	\$7,397,771	\$6,033,654
Support Services	5,391,999	4,502,354	5,166,538	4,408,896
Operation of Non-Instructional Services	635,875	35,716	610,053	30,525
Extracurricular Activities	418,686	175,064	314,236	92,372
Interest and Fiscal Charges	638,039	638,039	352,797	352,797
Total Expenses	<u>\$14,697,303</u>	<u>\$11,453,123</u>	<u>\$13,841,395</u>	<u>\$10,918,244</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 \$21,230,066 and expenditures and other financing uses of \$20,128,299.

Total governmental funds fund balance increased by \$1,101,767. The increase in fund balance for the year was most significant in the General Fund.

The District should remain stable in fiscal years 2007 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 2006, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

For the General Fund, the final budget basis revenue was \$11,948,370 representing a \$218,936 increase from the original budget estimates of \$11,729,434. The final budget reflected a 1.87 percent increase from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$11,288,643 representing a \$160,450 decrease from the original budget estimate of \$11,449,093.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$20.5 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$7.1 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

Table 4
Capital Assets & Accumulated Depreciation at Year End

	<u>Governmental Activities</u>	
	2006	2005
<i>Nondepreciable Capital Assets:</i>		
Land	\$105,604	\$105,604
<i>Depreciable Capital Assets:</i>		
Land Improvements	2,283,925	1,737,228
Buildings and Improvements	15,275,952	15,275,952
Furniture, Fixtures and Equipment	498,496	425,206
Vehicles	1,420,993	1,420,993
Library Books and Text Books	892,299	892,299
<i>Total Capital Assets</i>	20,477,269	19,857,282
<i>Accumulated Depreciation:</i>		
Land Improvements	(706,379)	(621,229)
Buildings and Improvements	(4,339,200)	(3,918,624)
Furniture, Fixtures and Equipment	(263,691)	(229,333)
Vehicles	(1,041,785)	(924,302)
Library Books and Text Books	(783,090)	(672,329)
<i>Total Accumulated Depreciation</i>	(7,134,145)	(6,365,817)
Capital Assets, Net	\$13,343,124	\$13,491,465

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

Debt Administration

At June 30, 2006, the District had \$5,695,050 in general obligation debt outstanding with \$320,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2006 compared to fiscal year 2005.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2006	2005
General Obligation Bonds	\$5,695,050	\$6,000,059

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

Current Issues

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

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

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced through 2005; after this a phase out formula would begin.

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

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes to over 80 percent of the District's real estate valuation.

Contacting the District's Financial Management

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

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,264,381
Property Taxes Receivable	3,788,746
Intergovernmental Receivable	81,445
Accrued Interest Receivable	127
Inventory Held for Resale	7,161
<u>Restricted Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	105,867
Deferred Charges	120,944
Nondepreciable Capital Assets	105,604
Depreciable Capital Assets, Net	<u>13,237,520</u>
<i>Total Assets</i>	<u>20,711,795</u>
<u>Liabilities:</u>	
Accrued Wages and Benefits	1,045,519
Intergovernmental Payable	385,869
Accrued Interest Payable	15,617
Deferred Revenue	3,312,277
Claims Payable	179,957
Matured Compensated Absences Payable	43,606
<u>Long-Term Liabilities:</u>	
Due within One Year	430,171
Due in More Than One Year	<u>7,275,019</u>
<i>Total Liabilities</i>	<u>12,688,035</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	6,607,477
<u>Restricted for:</u>	
Capital Outlay	837,195
Debt Service	347,524
Other Purposes	574,774
Set Asides	105,867
Unrestricted	<u>(449,077)</u>
<i>Total Net Assets</i>	<u><u>\$8,023,760</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$6,498,762	\$399,011	\$484,364	(\$5,615,387)
Special	1,089,254	0	624,139	(465,115)
Vocational	24,688	0	3,240	(21,448)
<i>Support Services:</i>				
Pupils	343,950	143,440	8,978	(191,532)
Instructional Staff	1,098,188	11,616	156,414	(930,158)
Board of Education	167,882	0	0	(167,882)
Administration	1,201,858	6,970	18,007	(1,176,881)
Fiscal	320,253	0	0	(320,253)
Business	64,732	0	0	(64,732)
Operation and Maintenance of Plant	1,091,200	2,323	256	(1,088,621)
Pupil Transportation	1,000,769	0	527,080	(473,689)
Central	103,167	0	14,561	(88,606)
<i>Operation of Non-Instructional Services:</i>				
Food Service	635,875	364,841	235,318	(35,716)
Extracurricular Activities	418,686	228,176	15,446	(175,064)
Interest and Fiscal Charges	638,039	0	0	(638,039)
<i>Total Governmental Activities</i>	<u>\$14,697,303</u>	<u>\$1,156,377</u>	<u>\$2,087,803</u>	<u>(11,453,123)</u>
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				3,201,611
Debt Service				485,354
Capital Outlay				549,478
Classroom Facilities Maintenance				70,013
Grants and Entitlements not Restricted to Specific Programs				6,842,844
Payments in Lieu of Taxes				514,906
Investment Earnings				21,351
Miscellaneous				129,494
<i>Total General Revenues</i>				<u>11,815,051</u>
Change in Net Assets				361,928
<i>Net Assets at Beginning of Year</i>				<u>7,661,832</u>
<i>Net Assets at End of Year</i>				<u><u>\$8,023,760</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$1,261,925	\$440,990	\$302,597	\$1,037,846	\$3,043,358
Property Taxes Receivable	2,689,719	520,759	507,255	71,013	3,788,746
Intergovernmental Receivable	0	0	0	81,445	81,445
Accrued Interest Receivable	127	0	0	0	127
Interfund Receivable	228,322	0	0	0	228,322
Inventory Held for Resale	0	0	0	7,161	7,161
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	105,867	0	0	0	105,867
 <i>Total Assets</i>	 <u>\$4,285,960</u>	 <u>\$961,749</u>	 <u>\$809,852</u>	 <u>\$1,197,465</u>	 <u>\$7,255,026</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accrued Wages and Benefits	\$911,024	\$0	\$0	\$134,495	\$1,045,519
Intergovernmental Payable	272,758	0	0	32,131	304,889
Interfund Payable	0	0	0	228,322	228,322
Deferred Revenue	2,494,346	486,424	475,020	98,718	3,554,508
Matured Compensated Absences Payable	43,606	0	0	0	43,606
 <i>Total Liabilities</i>	 <u>3,721,734</u>	 <u>486,424</u>	 <u>475,020</u>	 <u>493,666</u>	 <u>5,176,844</u>
<u>Fund Balances:</u>					
Reserved for Encumbrances	27,713	427,035	0	140,572	595,320
Reserved for Property Taxes	195,373	34,335	32,235	4,399	266,342
Reserved for Textbook and Instructional Materials	105,867	0	0	0	105,867
<i>Unreserved, Undesignated, Reported in:</i>					
General Fund	235,273	0	0	0	235,273
Special Revenue Funds	0	0	0	227,651	227,651
Debt Service Fund	0	0	302,597	0	302,597
Capital Projects Funds	0	13,955	0	331,177	345,132
 <i>Total Fund Balances</i>	 <u>564,226</u>	 <u>475,325</u>	 <u>334,832</u>	 <u>703,799</u>	 <u>2,078,182</u>
 <i>Total Liabilities and Fund Balances</i>	 <u>\$4,285,960</u>	 <u>\$961,749</u>	 <u>\$809,852</u>	 <u>\$1,197,465</u>	 <u>\$7,255,026</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, 2006*

Total Governmental Funds Balances		\$2,078,182
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,343,124
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:		
Property taxes	207,482	
Intergovernmental	34,749	
Total receivables not reported in funds		242,231
Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.		120,944
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
General obligation bonds	(5,695,050)	
Premium on bonds	(623,177)	
Accrued interest	(15,617)	
Capital leases	(538,366)	
Compensated absences	(848,597)	
Total liabilities not reported in funds		(7,720,807)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are not included in governmental activities in the statement of net assets.		(39,914)
<i>Net Assets of Governmental Activities</i>		\$8,023,760

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, 2006

	General	Permanent Improvement	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$3,265,420	\$550,983	\$491,698	\$70,477	\$4,378,578
Intergovernmental	7,607,648	58,938	53,794	1,235,295	8,955,675
Interest	20,294	0	443	614	21,351
Tuition and Fees	373,455	0	0	0	373,455
Gifts and Donations	900	0	0	20,576	21,476
Extracurricular Activities	10,868	0	0	263,773	274,641
Charges for Services	0	0	0	508,281	508,281
Payments in Lieu of Taxes	514,906	0	0	0	514,906
Miscellaneous	119,292	0	0	10,202	129,494
<i>Total Revenues</i>	<u>11,912,783</u>	<u>609,921</u>	<u>545,935</u>	<u>2,109,218</u>	<u>15,177,857</u>
<u>Expenditures:</u>					
<i>Current:</i>					
<i>Instruction:</i>					
Regular	5,655,284	48,926	0	541,478	6,245,688
Special	706,396	0	0	318,478	1,024,874
Vocational	24,889	0	0	0	24,889
<i>Support Services:</i>					
Pupils	341,538	0	0	11,143	352,681
Instructional Staff	702,565	38,742	0	217,832	959,139
Board of Education	167,996	0	0	0	167,996
Administration	1,163,720	3,418	0	31,754	1,198,892
Fiscal	291,064	11,868	5,840	1,542	310,314
Business	64,732	0	0	0	64,732
Operation and Maintenance of Plant	906,691	79,410	0	19,254	1,005,355
Pupil Transportation	898,746	13,105	0	0	911,851
Central	18,823	0	0	84,460	103,283
Operation of Non-Instructional Services	0	0	0	596,218	596,218
Extracurricular Activities	172,359	0	0	239,554	411,913
Capital Outlay	500,000	134,703	0	0	634,703
<i>Debt Service:</i>					
Principal Retirement	75,056	0	305,000	0	380,056
Interest and Fiscal Charges	2,337	0	146,168	0	148,505
Issuance Costs	0	0	120,944	0	120,944
<i>Total Expenditures</i>	<u>11,692,196</u>	<u>330,172</u>	<u>577,952</u>	<u>2,061,713</u>	<u>14,662,033</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>220,587</u>	<u>279,749</u>	<u>(32,017)</u>	<u>47,505</u>	<u>515,824</u>
<u>Other Financing Sources (Uses):</u>					
Inception of Capital Lease	500,000	0	0	0	500,000
Refunding Bonds Issued	0	0	4,879,991	0	4,879,991
Premium on Refunding Bonds Issued	0	0	623,177	0	623,177
Payment to Refunding Bond Escrow Agent	0	0	(5,382,225)	0	(5,382,225)
Transfers In	0	0	0	49,041	49,041
Transfers Out	(84,041)	0	0	0	(84,041)
<i>Total Other Financing Sources(Uses)</i>	<u>415,959</u>	<u>0</u>	<u>120,943</u>	<u>49,041</u>	<u>585,943</u>
<i>Net Change in Fund Balances</i>	636,546	279,749	88,926	96,546	1,101,767
<i>Fund Balances at Beginning of Year</i>	<u>(72,320)</u>	<u>195,576</u>	<u>245,906</u>	<u>607,253</u>	<u>976,415</u>
<i>Fund Balances at End of Year</i>	<u>\$564,226</u>	<u>\$475,325</u>	<u>\$334,832</u>	<u>\$703,799</u>	<u>\$2,078,182</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, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$1,101,767
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(148,341)
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	(76,085)
Intergovernmental	(42,541)
Total revenues not reported in the funds	(118,626)
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.	380,056
Interest expense in the statement of activities differs from the amount reported in governmental funds for two reasons. Additional accrued interest was calculated for bonds payable and the difference arising from the advance refunding due to premium and bond issuance costs.	
Accrued Interest	12,691
Advance Refunding Difference	(623,168)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges.	120,944
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities:	
Inception of capital leases	(500,000)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Compensated absences	38,943
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.	97,662
<i>Change in Net Assets of Governmental Activities</i>	\$361,928

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$3,307,137	\$3,383,766	\$3,383,766	\$0
Intergovernmental	7,372,797	7,607,648	7,607,648	0
Interest	20,000	18,364	20,167	1,803
Tuition and Fees	333,500	373,525	373,525	0
Gifts and Donations	0	900	900	0
Extracurricular Activities	10,000	10,868	10,868	0
Payments in Lieu of Taxes	506,000	514,906	514,906	0
Miscellaneous	180,000	38,393	112,951	74,558
<i>Total Revenues</i>	11,729,434	11,948,370	12,024,731	76,361
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	5,746,343	5,663,699	5,636,058	27,641
Special	782,690	717,722	717,692	30
Vocational	23,978	24,910	24,909	1
<i>Support Services:</i>				
Pupils	285,612	333,437	325,057	8,380
Instructional Staff	735,956	712,419	703,070	9,349
Board of Education	120,070	168,052	168,052	0
Administration	1,220,579	1,257,448	1,245,869	11,579
Fiscal	294,508	293,967	293,446	521
Business	59,866	71,432	71,432	0
Operation and Maintenance of Plant	972,619	940,661	924,029	16,632
Pupil Transportation	967,668	923,175	902,182	20,993
Central	56,847	18,823	18,823	0
Extracurricular Activities	182,357	162,898	162,899	(1)
<i>Total Expenditures</i>	11,449,093	11,288,643	11,193,518	95,125
<i>Excess of Revenues Over Expenditures</i>	280,341	659,727	831,213	171,486
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Assets	4,800	6,557	6,531	(26)
Advances Out	0	(18,200)	(18,200)	0
Transfers Out	0	(84,041)	(84,041)	0
<i>Total Other Financing Sources (Uses)</i>	4,800	(95,684)	(95,710)	(26)
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</i>	285,141	564,043	735,503	171,460
<i>Fund Balance at Beginning of Year</i>	492,885	492,885	492,885	0
Prior Year Encumbrances Appropriated	111,693	111,693	111,693	0
<i>Fund Balance at End of Year</i>	\$889,719	\$1,168,621	\$1,340,081	\$171,460

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$221,023</u>
<i>Total Assets</i>	<u>221,023</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Intergovernmental Payable	80,980
Claims Payable	<u>179,957</u>
<i>Total Liabilities</i>	<u>260,937</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>(\$39,914)</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, 2006*

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$1,796,327</u>
<u>Operating Expenses:</u>	
Claims	1,602,217
Other	<u>131,448</u>
<i>Total Operating Expenses</i>	<u>1,733,665</u>
<i>Income before Transfers</i>	62,662
Transfers In	<u>35,000</u>
<i>Change in Net Assets</i>	97,662
<i>Net Assets at Beginning of Year</i>	<u>(137,576)</u>
<i>Net Assets at End of Year</i>	<u><u>(\$39,914)</u></u>

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, 2006

	<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	\$1,800,824
Cash Payments for Claims	(1,626,501)
Other Cash Payments	<u>(50,468)</u>
<i>Net Cash from Operating Activities</i>	<u>123,855</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfer In	<u>35,000</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>35,000</u>
<i>Net Increase in Cash and Cash Equivalents</i>	158,855
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>62,168</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$221,023</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	\$62,662
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>(Increase) Decrease in Assets:</i>	
Intergovernmental Receivables	4,497
<i>Increase (Decrease) in Liabilities:</i>	
Intergovernmental Payable	80,980
Claims Payable	<u>(24,284)</u>
Total Adjustments	<u>61,193</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$123,855</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2006

Agency

Assets:

Equity in Pooled Cash and Cash Equivalents

\$44,571

Liabilities:

Current Liabilities:

Intergovernmental Payable

2,041

Due to Students

42,530

Total Liabilities

\$44,571

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 66 non-certificated employees, 102 certificated full-time teaching personnel, and 6 administrative employees who provide services to 1,724 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 South Central Ohio Computer Association (SCOCA), Central Ohio Special Education Regional Resource Center (COSERRC), and Ross County School Employees Insurance Consortium. The District is also associated with one insurance purchasing pool: Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP). These organizations are presented in Notes 18 and 19 to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Governmental Funds

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

The following are the District's three 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.

Permanent Improvement Fund - This fund is used to account for financial resources to be used for the acquisition, construction or improvement for capital facilities.

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.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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.

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2006, 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 could be sold for on June 30, 2006.

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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 2006 amounted to \$20,294, which includes \$12,191 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.

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. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks and instructional materials. See note 17 for additional information regarding set-asides.

H. Capital Assets

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

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

Description	Estimated Lives
Buildings	100 years
Improvements	8 - 20 years
Furniture, Fixtures and Equipment	8 - 20 years
Library Books and Textbooks	5-10 years
Vehicles	10 years

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

K. Accrued Liabilities and Long-Term Liabilities

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

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

L. Net Assets

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

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

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

The District reports restricted net assets of \$1,865,360; none of which is restricted by enabling legislation.

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 for textbooks and instructional materials.

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

N. Operating Revenues and Expenses

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

O. Interfund Transactions

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

P. Estimates

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

Q. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflects the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflects the amounts in the final amended certificate issued during fiscal year 2006.

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of GASB Statement No. 46 or 47 had no effect on the prior period net assets or fund balances of the District.

NOTE 4 - ACCOUNTABILITY

The following funds had a deficit in either their fund balance or net assets as of June 30, 2006:

	<u>Deficit Fund Balance/ Net Assets</u>
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$229,879
Management Information System	2,958
Student Intervention	39
Title VI - IDEA Part B	37,387
Title V	700
Improving Teacher Quality	10,604
Internal Service Fund	39,914

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$636,546
<i>Adjustments:</i>	
Revenue Accruals	111,948
Expenditure Accruals	526,391
Encumbrances	(27,713)
Other Sources (Uses)	<u>(511,669)</u>
Budget Basis	<u><u>\$735,503</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 five year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 \$5,494 in undeposited cash on hand which is included on the basic financial statements of the District, as part of the "Equity in Pooled Cash and Cash Equivalents".

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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

At June 30, 2006, the carrying amount of all District deposits was \$3,305,369. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$120,000 of the District's bank balance of \$3,324,882 was covered by Federal Deposit Insurance. The remaining balance of \$3,204,882 was collateralized with securities held by the District's financial institution or its agency in the District's name.

Investments: As of June 30, 2006, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$103,956	\$103,956
Totals	<u>\$103,956</u>	<u>\$103,956</u>

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

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

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement 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	\$3,414,819	\$0
<i>Investments:</i>		
STAROhio	(103,956)	103,956
Total	3,310,863	103,956
Petty Cash on Hand	(5,494)	0
GASB Statement No. 3	<u>\$3,305,369</u>	<u>\$103,956</u>

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, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES

Accrued property taxes receivable represents the June 2006 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2006. 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, 2006 was \$266,342 and is recognized as revenue. Of this total amount, \$195,373 was available to the General Fund, \$32,235 was available to the Bond Retirement Fund, \$34,335 was available to the Permanent Improvement Capital Projects Fund and \$4,399 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$133,864,360	84.70%	\$146,242,550	80.70%
Public Utility Personal	19,891,800	12.59%	30,596,120	16.88%
Tangible Personal Property	4,282,764	2.71%	4,380,903	2.42%
Total Assessed Value	<u>\$158,038,924</u>	<u>100.00%</u>	<u>\$181,219,573</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$38.05		\$38.05	

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 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:	
<hr/>	
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$17,829
Title VI - IDEA Part B	29,214
Title I	31,512
Title V	1,318
Drug Free Schools	1,572
Total Nonmajor Special Revenue Funds	<hr/> 81,445 <hr/>
Total Intergovernmental Receivable	<hr/> <hr/> \$81,445 <hr/> <hr/>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2005</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2006</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$105,604	\$0	\$0	\$105,604
<i>Depreciable Capital Assets:</i>				
Land Improvements	1,737,228	546,697	0	2,283,925
Buildings and Improvements	15,275,952	0	0	15,275,952
Furniture, Fixtures and Equipment	425,206	73,290	0	498,496
Vehicles	1,420,993	0	0	1,420,993
Library Books and Text Books	892,299	0	0	892,299
Total Depreciable Capital Assets	19,751,678	619,987	0	20,371,665
Total Capital Assets	19,857,282	619,987	0	20,477,269
<i>Accumulated Depreciation:</i>				
Land Improvements	(621,229)	(85,150)	0	(706,379)
Buildings and Improvements	(3,918,624)	(420,576)	0	(4,339,200)
Furniture, Fixtures and Equipment	(229,333)	(34,358)	0	(263,691)
Vehicles	(924,302)	(117,483)	0	(1,041,785)
Library Books and Text Books	(672,329)	(110,761)	0	(783,090)
Total Accumulated Depreciation	(6,365,817)	(768,328)	0	(7,134,145)
Total Net Capital Assets	\$13,491,465	(\$148,341)	\$0	\$13,343,124

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$328,768
Special	49,173
<i>Support Services:</i>	
Pupils	11,570
Instructional Staff	137,081
Administration	35,624
Fiscal	2,893
Operation and Maintenance of Plant	35,785
Pupil Transportation	118,604
Operation of Non-Instructional Services	40,729
Extracurricular Activities	8,101
	<hr/>
Total Depreciation Expense	<u><u>\$768,328</u></u>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 2006, the District contracted with Indiana Insurance for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

Building and Contents replacement cost (\$5,000)	\$28,816,240
Inland Marine Coverage (\$500 deductible)	350,000
Musical Instruments (\$1,000 deductible)	125,000
Automobile Liability (\$500 deductible)	2,000,000
General Liability:	
Per Occurrence (\$0 deductible)	1,000,000
Aggregate Limit	2,000,000
Public Officials Bonds:	
Treasurer	40,000
Superintendent/Board President (each)	10,000

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

For fiscal year 2006, the District participated in the Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$179,957 reported at June 30, 2006 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$180,674	\$1,476,441	\$1,452,874	\$204,241
2006	204,241	1,602,217	1,626,501	179,957

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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, 2006, 2005, and 2004 were \$214,461, \$158,231, and \$188,519, respectively; 59.97 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$85,848 representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

State Teachers Retirement System

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

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

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the 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 investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 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, 2006, 2005 and 2004 were \$793,272, \$669,437, and \$692,751 respectively; 86.13% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$110,051 represents the unpaid contribution for fiscal year 2006.

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, 2006, two members of the Board of Education have elected Social Security.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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, 2006, and June 30, 2005, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$61,131 during fiscal year 2006. The balance in the Health Care Stabilization Fund was \$3.5 billion on June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000. There were 119,184 eligible benefit participants.

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

After the allocation for basic benefits, the remainder of the employer's 14% contributions is allocated to providing health care benefits. At June 30, 2006, the health care allocation is 14%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. 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, 2006, were \$158,751,207. At June 30, 2006, the Retirement Systems' net assets available for payment of health care benefits were \$295.6 million. The number of benefit recipients currently receiving health care benefits is approximately 59,492. For the District, the amount to fund health care benefits, including surcharge, equaled \$90,367 during the 2006 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 13 - EMPLOYEE BENEFITS - (Continued)

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

Health, Prescription Drug and Dental Insurance

In July 1994, the District joined the Ross County School Employees Insurance Consortium (RCSEIC) to self insure its medical claims. RCSEIC currently includes 16 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent. The District had no cash reserve held by a fiscal agent as of June 30, 2006.

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

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

NOTE 14 - LONG-TERM LIABILITIES

The changes in the District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding at July 1, 2005	Additions	Deductions	Principal Outstanding at June 30, 2006	Amount Due In One Year
<i><u>Governmental Activities:</u></i>					
General Obligation Bonds:					
2000 School Facilities Construction					
4.60 - 13.01%					
Serial Bonds	\$2,520,000	\$0	\$2,030,000	\$490,000	\$240,000
Term Bonds	3,060,000	0	3,060,000	0	0
Capital Appreciation Bonds	420,059	0	0	420,059	0
2005 Refunding, 3.00 - 4.10%					
Serial Bonds	0	4,630,000	95,000	4,535,000	80,000
Capital Appreciation Bonds	0	249,991	0	249,991	0
Total General Obligation Bonds	6,000,059	4,879,991	5,185,000	5,695,050	320,000
Premium on Bonds	0	623,177	0	623,177	0
Capital Leases	113,422	500,000	75,056	538,366	52,366
Compensated Absences	887,540	269,610	308,553	848,597	57,805
Total Governmental Activities Long-Term Obligations	\$7,001,021	\$6,272,778	\$5,568,609	\$7,705,190	\$430,171

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

2000 School Facilities Construction & Improvement Bonds - On November 2, 1999, the District issued \$6,505,730 in voted general obligation bonds. The bond issue included serial, term and capital appreciation bonds in the amount of \$3,275,000, \$3,060,000 and \$170,732, respectively. The serial bonds were refunded in October 2005 for the entire balance less \$490,000, which will be repaid in fiscal years 2007 and 2008.

The term bonds were also refunded in full in October 2005.

The capital appreciation bonds will mature in the years ending June 30, 2009 through 2010. The maturity amount of the bonds is \$530,000.

2005 Refunding Bonds - In October 2005, the District issued \$4,879,991 of voted general obligation bonds for the partial advance refunding of the 2000 series bonds. The \$623,177 premium on the issuance of the refunding bonds is netted against this new debt and will be amortized over the life of this new debt, which has a remaining life of 17 years. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$377,888 and a reduction of \$509,755 in future debt service payments. \$4,630,000 was issued as serial bonds with interest rates ranging from 3.0% to 4.10%. \$249,991 was issued as capital appreciation bonds with an interest rate of 25.52%. The bonds were issued for a seventeen year period, with final maturity December 1, 2022. The refunding bonds will be retired from the Bond Retirement Debt Service Fund.

The serial bonds and capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2011, 2012 and 2013. The maturity amount of the bonds is \$1,065,000.

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.

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

Fiscal Year Ending June 30	2000 Serial Bonds Principal	2000 Serial Bonds Interest	2000 Capital Appreciation	2005 Term Bonds Principal	2005 Term Bonds Interest	2005 Capital Appreciation
2007	\$240,000	\$304,620	\$0	\$80,000	\$177,395	\$0
2008	250,000	291,695	0	80,000	174,995	0
2009	0	0	265,000	85,000	172,520	0
2010	0	0	265,000	85,000	169,970	0
2011	0	0	0	0	168,695	355,000
2012 - 2016	0	0	0	1,095,000	778,975	710,000
2017 - 2021	0	0	0	2,135,000	417,575	0
2022 - 2023	0	0	0	975,000	40,042	0
Total	\$490,000	\$596,315	\$530,000	\$4,535,000	\$2,100,167	\$1,065,000

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

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, 2006, are voted debt margin of \$10,864,039 and an unvoted debt margin of \$181,220.

NOTE 15 - CAPITAL LEASES

The District has entered into agreements to lease fitness equipment and replace a roof. The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. The capital leased assets, consisting of fitness equipment and roof replacement, has been capitalized in the amount of \$721,940 in the governmental activities, which represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2006 were \$75,056 in the governmental funds.

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, 2006 are as follows:

<u>Year Ended December 31,</u>	<u>Capital Lease Payments</u>
2007	\$75,818
2008	38,419
2009	38,645
2010	38,824
2011	38,956
2012-2016	195,125
2017-2021	192,375
2022-2026	<u>190,684</u>
Total Future Minimum Lease Payments	808,846
Less: Amount Representing Interest	<u>(270,480)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$538,366</u></u>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$228,322	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Food Service	0	210,122
District Managed Activities	0	10,000
Title VI - IDEA Part B	0	3,700
Title V	0	2,500
Drug Free Schools	0	2,000
Total Nonmajor Special Revenue Fund	0	228,322
Total	\$228,322	\$228,322

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

During fiscal year ended June 30, 2006, the District's interfund transfers were as follows:

Fund	Transfers To	Transfers From
General Fund	\$0	\$84,041
<i>Nonmajor Special Revenue Funds:</i>		
District Managed Activities	11,000	0
Management Information System	11,200	0
Data - Communication	2,911	0
Student Intervention	18,279	0
Improving Teacher Quality	4,486	0
Miscellaneous Federal Grants	1,165	0
Total Nonmajor Special Revenue Funds	49,041	0
Internal Service Fund	35,000	0
Total	\$84,041	\$84,041

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 17 - STATUTORY SET-ASIDES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-Aside Reserve Balance as of June 30, 2005	\$82,138	\$0	\$82,138
Current Year Set-Aside Requirement	229,939	229,939	459,878
Qualifying Disbursements	(206,210)	(242,709)	(448,919)
Totals	<u>105,867</u>	<u>(12,770)</u>	<u>93,097</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$105,867</u>	<u>\$0</u>	<u>\$105,867</u>
Total Restricted Assets			<u>\$105,867</u>

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

The District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, Lawrence, Pickaway, and Gallia Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The District paid SCOCA \$67,225 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, P.O. Box 577, 175 Beaver Creek., Piketon, Ohio, 45661.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Ross County School Employees Insurance Consortium (RCSEIC)

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

Central Ohio Special Education Regional Resource Center (COSERRC)

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

NOTE 19 - INSURANCE PURCHASING POOL

Shakley Unservile Inc. Worker's Compensation Group Rating Plan

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

NOTE 20 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

Westfall Local School District
Pickaway County
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	O5PU	10.553	\$19,056	\$0	\$19,056	\$0
National School Lunch Program	LLP4	10.555	154,514	0	154,514	0
Total Nutrition Cluster			173,570		173,570	
Food Donation	NA	10.550	0	58,343	0	58,343
Total United States Department of Agriculture			173,570	58,343	173,570	58,343
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Educational Agencies	C1S1	84.010	374,487	0	339,649	0
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BSF	84.027	515,794	0	470,579	0
Special Education - Preschool Grants	PGS1	84.173	17,542		18,373	
Total Special Education Cluster			533,336	0	488,952	0
Safe and Drug-Free Schools and Communities -State Grants	DRS1	84.186	14,242	0	10,899	0
State Grants for Innovative Programs	C2S1	84.298	3,227	0	4,494	0
Education Technology State Grants	TJS1	84.318	6,050	0	8,160	0
Improving Teacher Quality State Grants	TRS1	84.367	80,909	0	88,508	0
Total United States Department of Education			1,012,251	0	940,662	0
Total Federal Financial Assistance			\$1,185,821	\$58,343	\$1,114,232	\$58,343

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

Westfall Local School District
Pickaway County
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DONATION

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

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

BALESTRA, HARR & SCHERER CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Westfall Local School District (the District), Pickaway County, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 17, 2007, wherein we indicated the District implemented GASB Statements No. 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006.01, 2006.02, and 2006.03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

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

Members of the Board
Westfall Local School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

We noted certain matters that we reported to the management of the District in a separate letter dated September 17, 2007.

This report is intended solely for the information and use of management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Balestra, Harr & Scherer, CPAs, Inc.
September 17, 2007

BALESTRA, HARR & SCHERER CPAs, INC.

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

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

Compliance

We have audited the compliance of Westfall Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

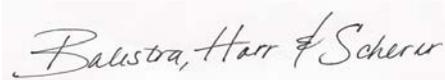
Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
September 17, 2007

Westfall Local School District
Pickaway County
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Special Education Cluster CFDA # 84.027 & 84.173; Nutrition Cluster CFDA # 10.553 & 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

Westfall Local School District
Pickaway County
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

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

Finding 2006.01

Reportable Condition – Inclusion of Bank Reconciliations in Monthly Financial Package to Board
The board is required to have an understanding of the financial position of the District. The board packet should include the bank reconciliations for clear pictures of the District’s financial position. Additionally, reconciled bank balances should agree to book balances and differences if any, should be investigated further. Bank reconciliations were not included in the monthly financial package presented to the Board for approval. Moreover, unreconciled differences existed and were not verified. The Board should require that bank reconciliations be included in the monthly financial package presented for approval. In addition, the Board should investigate and inquire about any existing unreconciled difference that may exist between the bank balance and the book balance.

Finding 2006.02

Reportable Condition – Cancelled Check Image Review
AOS Bulletin #96-006 requires electronically imaged checks to include copies of both the front and reverse sides of the check, and it must be clear which back side of a check matches the front side. The bank provides the District with an electronic image of the front of each canceled check; however the rear image of the cancelled check is not provided. Failure to have the electronic image of the back of the checks can result in the District not adequately monitoring the proper cashing of its checks. The District should contact its bank and have the bank provide copies of both the front and back sides of each electronically imaged canceled check.

Finding 2006.03

Reportable Condition – Investigation of Missing Checks
We noted certain missing checks, from July 2004 through June 2006, which were not recorded in the District’s accounting ledgers. These checks had not cleared the District’s bank accounts as of the date of our testing. The missing checks not recorded in the District’s ledgers should have been voided. However no evidence of voided missing checks was noted. The District should issue a stop-payment order to the bank on those checks that were deemed missing and were never voided.

Client Responses

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2006.01	Bank reconciliations will be provided to the Board.	August 1, 2007	Ernie Strawser, Treasurer
2006.02	The bank will be contacted.	August 1, 2007	Ernie Strawser, Treasurer
2006.03	The checks will be properly voided.	August 1, 2007	Ernie Strawser, Treasurer

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

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
OCTOBER 4, 2007**