

Western Local School District

Pike County, Ohio

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA
Auditor of State

Board of Education
Western Local School District
7959 SR 124
Latham, Ohio 45646

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 14, 2007

This Page is Intentionally Left Blank.

Western Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Table of Contents

<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.....	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	16
Statement of Net Assets- Governmental Activities- Internal Service Fund	17
Statement of Revenues, Expenses and Changes in Net Assets- Governmental Activities- Internal Service Fund	18
Statement of Cash Flows- Governmental Activities- Internal Service Fund.....	19
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	20
Notes to the Basic Financial Statements	21
Schedule of Federal Awards Expenditures.....	41
Notes to Schedule of Federal Awards Expenditures	42
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>	43
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133	45
Schedule of Findings- OMB Circular A-133 §.505.....	47

This Page is Intentionally Left Blank.

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Education
Western Local School District
7959 SR 124
Latham, Ohio 45646

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Local School District (the School District), Pike County, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

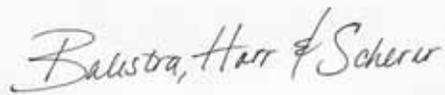
In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting 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 9 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Western 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 School 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 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.
October 26, 2006

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Western Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$352,989.
- General revenues accounted for \$5,796,264 in revenue or 65% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$3,114,209 or 35% of total revenues of \$8,910,473.
- The School District had \$9,263,462 in expenses related to governmental activities; only \$3,114,209 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$5,796,264 offset all but \$352,989 of the remaining cost for these programs.
- The School District has one major fund; the General Fund. The General Fund had \$6,460,067 in revenues and \$6,128,902 in expenditures and other financing uses. The General Fund's balance increased \$331,165.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Western 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 and conditions.

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

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting 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.

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

- In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund

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

Reporting the District's Fiduciary Responsibilities. The District acts in trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$8,329,719	\$7,953,805
Capital Assets	20,060,196	20,781,625
Total Assets	<u>28,389,915</u>	<u>28,735,430</u>
Liabilities		
Long-term Liabilities	1,093,644	1,107,195
Other Liabilities	1,589,984	1,568,959
Total Liabilities	<u>2,683,628</u>	<u>2,676,154</u>
Net Assets		
Invested in Capital Assets, Net of Debt	19,325,196	20,016,625
Restricted	1,529,020	1,544,944
Unrestricted	4,852,071	4,497,707
Total Net Assets	<u>\$25,706,287</u>	<u>\$26,059,276</u>

Total net assets of the District as a whole decreased \$352,989. The increase for the District to current and other assets is due to the District receiving more in revenue than expended (excluding depreciation) during the year. However, the current year depreciation for the District caused the District's net assets to decrease for the fiscal year.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues		
Charges for Services and Sales	\$348,279	\$437,372
Operating Grants and Contributions	2,755,946	2,984,489
Capital Grants and Contributions	9,984	0
Total Program Revenues	<u>3,114,209</u>	<u>3,421,861</u>
General Revenues		
Property Taxes	813,680	322,004
Grants and Entitlements	4,641,735	4,547,807
Investment Earnings	271,822	159,131
Miscellaneous	69,027	18,756
Total General Revenues	<u>5,796,264</u>	<u>5,047,698</u>
Total Revenues	<u>8,910,473</u>	<u>8,469,559</u>
Program Expenses		
Instruction:		
Regular	3,323,203	3,562,182
Special	1,282,463	1,218,163
Vocational	44,588	75,646
Other	488,842	300,000
Support Services:		
Pupil	325,788	324,992
Instructional Staff	617,734	603,362
Board of Education	13,961	11,540
Administration	686,055	1,056,461
Fiscal	226,459	223,688
Operation and Maintenance of Plant	779,472	801,180
Pupil Transportation	751,177	674,160
Central	103,657	82,642
Operation of Non-Instructional Services	367,381	378,213
Extracurricular Activities	129,864	133,915
Intergovernmental	77,068	47,451
Interest and Fiscal Charges	45,750	47,250
Total Expenses	<u>9,263,462</u>	<u>9,540,845</u>
Decrease in Net Assets	(352,989)	(1,071,286)
Net Assets, Beginning of Year	<u>26,059,276</u>	<u>27,130,562</u>
Net Assets, End of Year	<u>\$ 25,706,287</u>	<u>\$ 26,059,276</u>

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Over the past several years, the School District has remained in good financial position. The expenses for the School District have decreased from the prior year due to the end of the construction project in 2005. This also attributes to the decrease in administrative costs from 2005 to 2006. The increase in tax revenue is due to delinquent tax monies being collected by the County.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006		2005	
Program Expenses				
Instruction:				
Regular	\$3,323,203	\$2,697,735	\$3,562,182	\$2,686,929
Special	1,282,463	375,353	1,218,163	302,133
Vocational	44,588	42,943	75,646	71,550
Other	488,842	383,332	300,000	284,203
Support Services:				
Pupil	325,788	269,047	324,992	263,390
Instructional Staff	617,734	294,945	603,362	189,250
Board of Education	13,961	13,491	11,540	10,955
Administration	686,055	569,189	1,056,461	923,035
Fiscal	226,459	210,864	223,688	206,266
Operation and Maintenance of Plant	779,472	741,588	801,180	766,689
Pupil Transportation	751,177	371,500	674,160	279,498
Central	103,657	103,314	82,642	3,233
Operation of Non-Instructional Services	367,381	(32,563)	378,213	(5,005)
Extracurricular Activities	129,864	68,741	133,915	105,812
Intergovernmental	77,068	5,717	47,451	(1,997)
Interest and Fiscal Charges	45,750	34,057	47,250	33,043
Total	<u>\$9,263,462</u>	<u>\$6,149,253</u>	<u>\$9,540,845</u>	<u>\$6,118,984</u>

THE SCHOOL DISTRICT FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$8,904,221 and expenditures and other financing uses of \$8,656,259. The School District remains financially stable in terms of healthy carryovers and our ability to pay bills.

The General Fund had an increase in fund balance of \$331,165. This increase is due to a slight increase in revenues by the district for the current fiscal year.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the School District amended its General Fund budget.

For the General Fund, final budgeted revenue was \$6,587,349, above original estimates of \$6,213,975. For the General Fund, appropriations were \$6,327,811, above original estimates of \$5,959,538.

The School District's ending unobligated General Fund balance was \$5,201,621.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the School District had \$20,060,196 invested in land and land improvements, buildings and improvements, furniture and equipment, vehicles, library and textbooks, and infrastructure. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$364,219	\$364,219
Land Improvements	1,415,122	1,505,645
Buildings and Improvements	17,270,873	17,902,351
Furniture and Equipment	322,899	352,695
Vehicles	456,903	397,187
Library and Textbooks	122,029	149,147
Infrastructure	108,151	110,381
Totals	\$20,060,196	\$20,781,625

Changes in capital assets from the prior year resulted from additions, disposals and depreciation.

Debt

At June 30, 2006, the School District had general obligation bonds outstanding of \$735,000. The bonds were issued for school construction. For additional information on debt, see Note 14 to the basic financial statements.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paula Branscomb, Treasurer at Western Local School District, 7959 State Route 124, Latham, Ohio 45646.

Western Local School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,837,208
Accounts Receivable	275
Accrued Interest Receivable	51
Intergovernmental Receivable	332,390
Property Taxes Receivable	1,159,795
Noncurrent Assets:	
Non-Depreciable Capital Assets	364,219
Depreciable Capital Assets, Net	19,695,977
<i>Total Assets</i>	28,389,915
Liabilities	
Accounts Payable	9,793
Accrued Wages and Benefits Payable	550,620
Matured Compensated Absences Payable	10,594
Claims Payable	6,456
Deferred Revenue	738,120
Intergovernmental Payable	274,401
Long-Term Liabilities:	
Due Within One Year	84,525
Due In More Than One Year	1,009,119
<i>Total Liabilities</i>	2,683,628
Net Assets	
Invested in Capital Assets, Net of Related Debt	19,325,196
Restricted for:	
Capital Projects	831,097
Debt Service	322,735
Other Purposes	375,188
Unrestricted	4,852,071
<i>Total Net Assets</i>	\$25,706,287

See accompanying notes to the basic financial statements

Western Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$3,323,203	\$84,411	\$539,000	\$2,057	(\$2,697,735)
Special	1,282,463	24,923	882,187	0	(375,353)
Vocational	44,588	1,645	0	0	(42,943)
Other	488,842	15,380	90,130	0	(383,332)
Support Services:					
Pupil	325,788	10,628	46,113	0	(269,047)
Instructional Staff	617,734	10,477	312,312	0	(294,945)
Board of Education	13,961	470	0	0	(13,491)
Administration	686,055	21,484	87,575	7,807	(569,189)
Fiscal	226,459	8,694	6,901	0	(210,864)
Operation and Maintenance of Plant	779,472	29,380	8,384	120	(741,588)
Pupil Transportation	751,177	25,141	354,536	0	(371,500)
Central	103,657	343	0	0	(103,314)
Operation of Non-Instructional					
Services	367,381	79,248	320,696	0	32,563
Extracurricular Activities	129,864	35,970	25,153	0	(68,741)
Intergovernmental	77,068	85	71,266	0	(5,717)
Interest and Fiscal Charges	45,750	0	11,693	0	(34,057)
Totals	\$9,263,462	\$348,279	\$2,755,946	\$9,984	(6,149,253)
General Revenues					
Property Taxes Levied for:					
General Purposes					724,457
Debt Service					75,725
Classroom Facilities Maintenance					13,498
Grants and Entitlements not Restricted to Specific Programs					4,641,735
Investment Earnings					271,822
Miscellaneous					69,027
Total General Revenues					5,796,264
Change in Net Assets					(352,989)
Net Assets Beginning of Year					26,059,276
Net Assets End of Year					\$25,706,287

See accompanying notes to the basic financial statements

Western Local School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,307,877	\$1,495,570	\$6,803,447
Receivables:			
Property Taxes	997,363	162,432	1,159,795
Accounts	275	0	275
Accrued Interest	51	0	51
Intergovernmental	0	332,390	332,390
<i>Total Assets</i>	<u>\$6,305,566</u>	<u>\$1,990,392</u>	<u>\$8,295,958</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$8,653	\$1,140	\$9,793
Accrued Wages and Benefits Payable	370,298	180,322	550,620
Matured Compensated Absences Payable	9,836	758	10,594
Intergovernmental Payable	188,149	86,252	274,401
Deferred Revenue	921,182	412,728	1,333,910
<i>Total Liabilities</i>	<u>1,498,118</u>	<u>681,200</u>	<u>2,179,318</u>
Fund Balances			
Reserved for Encumbrances	123,173	97,734	220,907
Reserved for Property Taxes	66,391	8,701	75,092
Unreserved, Undesignated, Reported in:			
General Fund	4,617,884	0	4,617,884
Special Revenue Funds	0	91,265	91,265
Debt Service Funds	0	282,170	282,170
Capital Projects Funds	0	829,322	829,322
<i>Total Fund Balances</i>	<u>4,807,448</u>	<u>1,309,192</u>	<u>6,116,640</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,305,566</u>	<u>\$1,990,392</u>	<u>\$8,295,958</u>

See accompanying notes to the basic financial statements

Western Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances \$ 6,116,640

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 20,060,196

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	335,596	
Intergovernmental	260,194	
	260,194	

Total		595,790
-------	--	---------

An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 27,305

Long-Term Liabilities, including bonds, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(358,644)	
General Obligation Bonds	(735,000)	
	(735,000)	

Total		(1,093,644)
-------	--	-------------

Net Assets of Governmental Activities \$ 25,706,287

See accompanying notes to the basic financial statements

Western Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$687,312	\$103,340	\$790,652
Intergovernmental	5,289,455	2,030,837	7,320,292
Interest	244,081	27,741	271,822
Rent	75	0	75
Tuition and Fees	234,586	2,508	237,094
Extracurricular Activities	300	31,946	32,246
Gifts and Donations	480	2,481	2,961
Customer Sales and Services	0	78,864	78,864
Miscellaneous	3,778	65,249	69,027
<i>Total Revenues</i>	<u>6,460,067</u>	<u>2,342,966</u>	<u>8,803,033</u>
Expenditures			
Current:			
Instruction:			
Regular	2,142,331	492,855	2,635,186
Special	622,893	655,170	1,278,063
Vocational	44,588	0	44,588
Other	390,528	98,314	488,842
Support Services:			
Pupil	274,542	51,096	325,638
Instructional Staff	256,920	339,215	596,135
Board of Education	13,961	0	13,961
Administration	548,655	132,526	681,181
Fiscal	218,419	3,631	222,050
Operation and Maintenance of Plant	748,112	10,459	758,571
Pupil Transportation	644,390	0	644,390
Central	5,128	98,529	103,657
Operation of Non-Instructional Services	320	353,102	353,422
Extracurricular Activities	102,178	27,686	129,864
Intergovernmental	0	77,068	77,068
Capital Outlay	14,749	111,956	126,705
Debt Service:			
Principal	0	30,000	30,000
Interest and Fiscal Charges	0	45,750	45,750
<i>Total Expenditures</i>	<u>6,027,714</u>	<u>2,527,357</u>	<u>8,555,071</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>432,353</u>	<u>(184,391)</u>	<u>247,962</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	101,188	101,188
Operating Transfers Out	(101,188)	0	(101,188)
<i>Total Other Financing Sources (Uses)</i>	<u>(101,188)</u>	<u>101,188</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	331,165	(83,203)	247,962
<i>Fund Balance at Beginning of Year</i>	<u>4,476,283</u>	<u>1,392,395</u>	<u>5,868,678</u>
<i>Fund Balance at End of Year</i>	<u>\$4,807,448</u>	<u>\$1,309,192</u>	<u>\$6,116,640</u>

See accompanying notes to the basic financial statements

Western 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 \$ 247,962

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

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	164,572	
Current Year Depreciation	(883,470)	
Total	(718,898)	(718,898)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets	(2,531)	
Total	(2,531)	(2,531)

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

Taxes	23,028	
Intergovernmental	84,412	
Total	107,440	107,440

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

30,000

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

(513)

Some expenses 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.

Increase in Compensated Absences	(16,449)	
----------------------------------	----------	--

Total	(16,449)	
-------	----------	--

Net Change in Net Assets of Governmental Activities \$ (352,989)

See accompanying notes to the basic financial statements

Western Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
(Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget: Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Revenues and Other Sources	\$ 6,213,975	\$ 6,587,349	\$ 6,490,531	\$ (96,818)
Total Expenditures and Other Uses	5,959,538	6,327,811	6,231,824	95,987
Net Change in Fund Balance	254,437	259,538	258,707	(831)
Fund Balance, July 1, 2005	4,891,312	4,891,312	4,891,312	0
Prior Year Encumbrances Appropriated	51,602	51,602	51,602	0
Fund Balance, June 30, 2006	<u>\$ 5,197,351</u>	<u>\$ 5,202,452</u>	<u>\$ 5,201,621</u>	<u>\$ (831)</u>

See accompanying notes to the basic financial statements

Western Local School District
Statement of Net Assets
Governmental Activities - Internal Service Fund
June 30, 2006

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$33,761</u>
<i>Total Assets</i>	<u><u>33,761</u></u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>6,456</u>
<i>Total Liabilities</i>	<u>6,456</u>
NET ASSETS:	
Unrestricted	<u><u>\$27,305</u></u>

See accompanying notes to the basic financial statements

Western Local School District
*Statement of Revenues, Expenses and
Changes In Net Assets*
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2006

Operating Revenues:	
Charges for Services	<u>\$61,678</u>
<i>Total Operating Revenues</i>	<u>61,678</u>
Operating Expenses:	
Purchased Services	4,666
Other	500
Claims Expense	<u>57,025</u>
<i>Total Operating Expenses</i>	<u>62,191</u>
Change in Net Assets	(513)
Net Assets at Beginning of Year	<u>27,818</u>
Net Assets at End of Year	<u><u>\$27,305</u></u>

See accompanying notes to the basic financial statements

Western Local School District
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Transaction with Other Funds	\$61,678
Cash Payments to Suppliers for Services	(5,166)
Cash Payments for Claims	<u>(55,218)</u>

Net Cash Provided by Operating Activities 1,294

Cash and Cash Equivalents at Beginning of Year 32,467

Cash and Cash Equivalents at End of Year \$33,761

***Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities***

Operating Loss (\$513)

Changes in Assets and Liabilities:

Increase in Claims Payable 1,807

Net Cash Provided by Operating Activities \$1,294

See accompanying notes to the basic financial statements

Western Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$27,103</u>
Total Assets	<u><u>27,103</u></u>
Liabilities	
Undistributed Monies	<u>27,103</u>
Total Liabilities	<u><u>\$27,103</u></u>

See accompanying notes to the basic financial statements

Western 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

Western Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1934 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 87 square miles. It is located in Pike County and includes Benton, Mifflin, Pebble, Perry, and Sunfish Townships. The School District is the 521st largest in the State of Ohio (among 611 school districts). It is staffed by 45 non-certificated employees and 70 certificated full-time teaching personnel who provide services to 886 students and other community members.

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 School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Western Local School District, this includes general operations, food service, and student related activities of the School District.

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

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Village of Latham
- Parent Teacher Organization
- Ross - Pike County Educational Service Center

The School District is associated with four organizations, three of which are defined as jointly governed organizations, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, Pike County Joint Vocational School, the Coalition of Rural and Appalachian Schools, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

The School District's basic financial statements consist of government-wide 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 School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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 and 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 School District. 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 School District.

Fund Financial Statements:

During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using three categories, governmental, proprietary, and fiduciary.

Governmental Funds

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund

The General Fund is the general operating fund of the School 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 School District for any purpose provided it is expended or transferred according to the school laws of Ohio.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects, whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Western Local School District has no Enterprise Funds.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Western Local School District on a cost reimbursement basis. The School District's only internal service fund accounts for the self-insurance program for employee dental claims.

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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's only agency funds are funds used to account for student-managed activities.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total 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 balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of the proprietary activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for proprietary and fiduciary funds. Differences in the accrual and 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 Non-exchange Transactions

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

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. 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 set 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. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

D. Cash and Cash Equivalents

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

During fiscal year 2006, the District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited during fiscal year 2006 amounted to \$244,081 to the General Fund and \$27,741 to the Non-Major governmental funds.

Western 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)

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets 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 fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. It is the School District's policy to capitalize interest incurred during construction.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 50 years for buildings, 20 years for land improvements, 20 to 30 years for building improvements, 5 to 20 years for furniture and equipment, 6 to 15 years for vehicles, library books and textbooks and 50 years for infrastructure which consists of a sewer plant and sewer lines.

F. Interfund Activity

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

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. 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 School District has identified as probable of receiving payment 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 School District's termination policy.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after 15 years of current service with the School 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 employee will be paid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits 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. Bonds are recognized as a liability on the government-wide financial statements when due.

I. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

J. Estimates

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements 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 School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represent balances in special revenue funds for grants whose use is restricted by grant agreements.

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

For the fiscal year 2006, the School District has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. These new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

NOTE 4 - ACCOUNTABILITY

At June 30, 2006, the Management Information System, Summer School, and Title I Special Revenue Funds had deficit fund balances of \$7,250, \$58, \$12,563, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law 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 Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

	Net Change in Fund Balance
	<u>General</u>
GAAP Basis	\$331,165
Revenue Accruals	30,464
Expenditure Accruals	28,604
Encumbrances	<u>(131,526)</u>
Budget Basis	<u><u>\$258,707</u></u>

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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 School 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.

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

Deposits: Custodial credit risk is the risk that an event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. At fiscal year end, the carrying amount of the School Districts deposits was \$77,264. As of June 30, 2006, \$76,347 of the District's bank balance of \$176,347 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments: The School District had the following investments at June 30, 2006:

	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$6,787,047	0

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 limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio and Certificates of Deposit. 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 does have an investment policy which allows only investments in STAR Ohio and Certificates of Deposit. The District has invested 100 percent in STAR Ohio.

For an investment, 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. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2006 real property taxes are collected in and intended to finance fiscal year 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

The assessed values upon which 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	\$28,354,390	86.58%	\$32,320,730	87.88%
Public Utility	3,365,590	10.27%	3,414,741	9.29%
Tangible Personal Property	1,026,428	3.15%	1,041,581	2.83%
Total Assessed Value	\$32,746,408	100.00%	\$36,777,052	100.00%
Tax rate per \$1,000 of assessed valuation	\$33.15		\$32.75	

The School District receives property taxes from Pike County. The County Auditor periodically advances to the School 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.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2006 and for which there is an enforceable claim. 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 amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2006, was \$66,391 in the General Fund and \$8,701 in the Non-Major funds.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, interest, tuition and fees, 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Special Revenue Funds:	
Public Preschool	\$462
Drug Free Schools	14,993
Title VI-B	28,578
Title I	177,560
Title II-A	43,216
Misc. Federal Grants	<u>67,581</u>
Total Governmental Activities	<u>\$332,390</u>

NOTE 9 - RISK MANAGEMENT

The School 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 School District contracted with the Ohio School Plan for fleet insurance, liability insurance, and inland marine coverage. Lorbach Insurance Agency provides public official bonds. Total coverage amounted to \$25,398,381 with a \$1,000 deductible.

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

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 ensures 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 firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 - RISK MANAGEMENT (continued)

Dental insurance is offered to employees through a self-insurance internal service fund. Coresource is the School District's third party administrator who informs the District of claim payments needed each week. Dominguez Consulting provides an actuarial study each year and advises the District as to any change needed in premium payments to the internal service fund. The claims liability of \$6,456 reported in the internal service fund at June 30, 2006 is based on an estimate provided by Coresource and the requirements of GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments 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:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2005	\$4,690	\$51,142	\$51,183	\$4,649
2006	4,649	57,025	55,218	6,456

NOTE 10 - CAPITAL ASSETS

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

	Ending Balance 6/30/05	Additions	Deletions	Ending Balance 6/30/06
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$364,219	\$0	\$0	\$364,219
Total Capital Assets, Not Being Depreciated	364,219	0	0	364,219
Capital Assets Being Depreciated				
Land Improvements	1,810,469	0	0	1,810,469
Buildings and Improvements	20,022,033	0	0	20,022,033
Furniture and Equipment	596,897	11,695	(5,423)	603,169
Vehicles	1,196,899	152,877	0	1,349,776
Library Books and Textbooks	372,384	0	0	372,384
Infrastructure	111,496	0	0	111,496
Total Capital Assets, Being Depreciated	24,110,178	164,572	(5,423)	24,269,327
Less Accumulated Depreciation:				
Land Improvements	(304,824)	(90,523)	0	(395,347)
Building and Improvements	(2,119,682)	(631,478)	0	(2,751,160)
Furniture and Equipment	(244,202)	(38,960)	2,892	(280,270)
Vehicles	(799,712)	(93,161)	0	(892,873)
Library Books and Textbooks	(223,237)	(27,118)	0	(250,355)
Infrastructure	(1,115)	(2,230)	0	(3,345)
Total Accumulated Depreciation	(3,692,772)	(883,470)	2,892	(4,573,350)
Total Capital Assets Being Depreciated, Net	20,417,406	(718,898)	(2,531)	19,695,977
Governmental Activities Capital Assets, Net	\$20,781,625	(\$718,898)	(\$2,531)	\$20,060,196

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - CAPITAL ASSETS (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$726,185
Special	760
Support Services:	
Instructional Staff	17,553
Administration	2,991
Operation and Maintenance of Plant	16,518
Pupil Transportation	105,694
Non-Instructional Services	13,769
Total Depreciation Expense	<u>\$883,470</u>

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2004, 10.58% was the portion allocated to fund pension obligations and 3.42% was the amount allocated to health care coverage. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$109,753, \$100,131, and \$145,824, respectively. 48% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$56,824 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. 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 Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered 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 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 a 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 on 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.

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; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times 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 of 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 – 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 a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse 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, whichever 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.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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 these active 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 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 were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$490,119, \$416,938, and \$395,638, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. \$83,557 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$35,592 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$138,009.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation days are credited to these employees on the anniversary of their employment and should be used within the next twelve months. Vacation may be accumulated up to a maximum of 59 days (60 days for the superintendent and treasurer). Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Metropolitan Life Insurance Company. The School District has elected to provide employee medical/surgical benefits, vision and prescription drug benefits through United Health Care of Ohio. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Due In One Year
1995 School Improvement General Obligation Bonds - 4.05% to 6.35%	\$765,000	\$0	\$30,000	\$735,000	\$35,000
Compensated Absences	342,195	358,644	342,195	358,644	49,525
Total Long-Term Obligations	\$1,107,195	\$358,644	\$372,195	\$1,093,644	\$84,525

The 1995 School Improvement bonds were issued in the amount of \$920,000 in November, 1995 as a result of the School District being approved for a \$6,847,433 school facilities loan through the State Department of Education for the construction of a junior/senior high school building. The School District issued the general obligation bonds to provide a partial cash match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 4.15 mill levy. The 4.15 mill levy, of which .5 mill was to be used for the retirement of the loan, with the balance of 3.65 mills to be used for the retirement of the 1995 bond issue, will be in effect for twenty-three years.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

On October 7, 1997, Western Local School District was notified by the Ohio School Facilities Commission that they would not be responsible for repaying the remainder of the \$6,847,433 classroom facilities loan to the State because the School District's adjusted valuation per pupil (currently 608 out of 611 schools) was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the School District must set aside the funds that would have been used for repayment for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the School District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the School District may become responsible for repayment of a portion of the State's contribution.

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$2,574,935 with an unvoted debt margin of \$36,777 at June 30, 2006.

Principal and interest requirements to retire general obligation debt at June 30, 2006, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	\$35,000	\$44,021	\$79,021
2008	40,000	41,940	81,940
2009	40,000	39,720	79,720
2010	45,000	37,361	82,361
2011	50,000	34,725	84,725
2012-2016	340,000	116,841	456,841
2017-2018	185,000	11,906	196,906
Total	\$735,000	\$326,514	\$1,061,514

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School 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 Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence 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 of the participating counties, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$54,278 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

The Pike County Joint Vocational School - The Pike County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of the Pike County Board of Education and two representatives from the Waverly City Schools Board of Education, which possesses its own budgeting and taxing authority. To obtain financial information write to the Pike County Joint Vocational School, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council. The School District paid \$300 to the Coalition for services provided during the year.

NOTE 16 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 17 - CONTINGENCIES

Grants

The School 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 School District at June 30, 2006.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2005	\$0	\$0
Current year set-aside requirement	123,981	123,981
Current year offsets and Pr. Yr. Carry Over	(215,862)	(149,613)
Qualifying disbursements	(111,474)	(144,276)
Amount Carried Forward to FY 2007	(\$203,355)	(\$169,908)
Reserve Balance as of June 30, 2006	\$0	\$0

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

The School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks and Capital Acquisition Reserves, these extra amounts may be carried forward and used to reduce the set-aside requirements of future years.

NOTE 19 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2006, were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$101,188	\$0
Non Major Funds:		
Lunchroom	0	20,000
Athletic	0	1,188
EMIS	0	80,000
Total	<u>\$101,188</u>	<u>\$101,188</u>

Transfers were made to move unrestricted balances to support programs and projects accounted for in other funds.

NOTE 20 – NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the District's \$1,529,020 restricted net assets, \$0 is restricted by enabling legislation.

Western Local School District
Pike 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>						
Food Distribution Program	NA	10.550	\$0	\$40,949	\$0	\$40,949
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05PU	10.553	65,914	0	65,914	0
School Lunch Program	LLP4	10.555	172,138	0	172,138	0
Total United States Department of Agriculture - Nutrition Cluster			<u>238,052</u>	<u>40,949</u>	<u>238,052</u>	<u>40,949</u>
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education Grants to States	6BSF	84.027	294,566	0	254,275	0
Total Special Education Cluster			<u>294,566</u>	<u>0</u>	<u>254,275</u>	<u>0</u>
Title I Grants to Local Education Agencies	C1S1	84.010	596,118	0	598,826	0
Safe and Drug Free Schools and Communities State Grants	DRS1	84.186	4,159	0	3,528	0
State Grants for Innovative Programs	C2S1	84.298	4,131	0	4,015	0
Education Technology State Grants	TJS1	84.318	13,772	0	14,307	0
Rural Education	RUS1	84.358	29,385	0	31,276	0
Improving Teacher Quality State Grant	TRS1	84.367	48,947	0	51,915	0
Reading First State Grant	RSS1	84.357	248,410	0	220,362	0
Total United States Department of Education			<u>1,239,488</u>	<u>0</u>	<u>1,178,504</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$1,477,540</u>	<u>\$40,949</u>	<u>\$1,416,556</u>	<u>\$40,949</u>

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

WESTERN LOCAL SCHOOL DISTRICT
Notes to 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 is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

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.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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***

Board of Education
Western Local School District
7959 SR 124
Latham, Ohio 45646

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Local School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 26, 2006 wherein we indicated the District implemented GASB Statements No. 42, 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 School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters which we reported to management of the School District in a separate letter dated October 26, 2006.

Board of Education

Western 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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

October 26, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Education
Western Local School District
7959 SR 124
Latham, Ohio 45646

Compliance

We have audited the compliance of Western Local School District (the School 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 its major federal program for the year ended June 30, 2006. The School District's major federal program is 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 its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School 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 School 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 School District's compliance with those requirements.

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

Board of Education
Western Local School District
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR
A-133

Internal Control Over Compliance

The management of the School 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 School District's 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 the internal control over compliance in accordance with OMB Circular A-133.

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

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



Balestra, Harr & Scherer, CPAs, Inc.
October 26, 2006

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505

WESTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY, OHIO
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505

WESTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY, OHIO
JUNE 30, 2006

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

WESTERN LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 27, 2007**