

Westfall Local School District

Pickaway County

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

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Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Westfall Local School District, Pickaway County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

Finding for Recovery Repaid Under Audit

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions."

The following expenditures were made during fiscal years 2004 through 2008 by Kent Wolfe, former Westfall Middle School Principal, and were not supported by an invoice or do not appear to be for a proper public purpose. The Board of Education did not issue prior approval of these expenditures demonstrating what public purpose such expenditures served.

<u>Check/ATM Date</u>	<u>Check Number</u>	<u>Amount</u>	<u>Payee</u>	<u>Description</u>
9/3/2004	withdrawal	\$ 100		Fall concession box money
5/11/2005	withdrawal	350		Springhill reimbursement
6/14/2005	withdrawal	100		Springhill reimbursement
6/21/2005	withdrawal	125	1	No description provided

7/18/2005	withdrawal	200	1		Hoses, Lawnmower, wheelbarrow, feeders, sprinklers, roundup, storage tub, rain gauge, and thermometer
7/25/2005	withdrawal	100			Hoses, Lawnmower, wheelbarrow, feeders, sprinklers, roundup, storage tub, rain gauge, and thermometer
8/5/2005	withdrawal	250			Hoses, Lawnmower, wheelbarrow, feeders, sprinklers, roundup, storage tub, rain gauge, and thermometer
11/25/2005	withdrawal	200			Concession stand winter cash box
3/27/2006	withdrawal	200			Money for cash box for track invitational.
5/25/2006	515	250	Kent and Lesley Wolfe		Reimbursement to Kent and Lesley Wolfe for market geraniums
6/29/2006	withdrawal	200			No description provided
8/5/2006	518	100	Lesley Wolfe		Reimbursement to Lesley Wolfe for shrubs and roundup
8/15/2006	521	75	Lesley Wolfe		Reimbursement to Lesley Wolfe for football flowers
12/04/2006	523	150	Cash		Start up money for winter athletic concession stand
5/31/2007	533	48.55	Cash		Reimbursement to Kent Wolfe for pizza, pop, and chips
6/21/2007	534	100			Reimbursement to Kent Wolfe for bird feeders, bird food, and flat of herbs for land lab
11/19/2007	withdrawal	150	Cash		Concession stand money for meet the Team night
		<u>2,698.55</u>			

Certain expenditures were not supported with detailed invoices or receipts to indicate each of the items purchased. Without appropriate documentation it is not possible to determine if the expenditures included items that would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the District's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies expended is hereby issued against Kent Wolfe in the amount of \$2,698.55 and in favor of the Westfall Local School District's General Fund.

On June 30, 2008, Mr. Wolfe repaid the finding amount of \$ 2,698.55.

Finding for Recovery Repaid Under Audit

Prior to September 29, 2007, Ohio Rev. Code Section 3313.202(D) stated any elected or appointed member of the board of education and the dependent children and spouse of the member may be covered, at the option of the member, as an employee of the school district under any benefit plan adopted under this section. The member shall pay to the school district the amount certified for that coverage under division (D) (1) or (2) of this section. Payments for such coverage shall be made, in advance, in a manner prescribed by the board. The member's exercise of an option to be covered under this section shall be in writing, announced at a regular public meeting of the board, and recorded as a public record in the minutes of the board.

Effective September 29, 2007, Ohio Revised Code Section 3313.202 states that "Any elected or appointed member of the board of education of a school district and the dependent children and spouse of the member may be covered, at the option of the member, under any health care plan containing best practices prescribed by the school employees health care board under 9.901 of the Revised Code. The member shall pay all premiums for that coverage. Payments for such coverage shall be made, in advance, in a manner prescribed by the school employees' health care board. The member's exercise of an option to be covered under this section shall be in writing, announced at a regular public meeting of the board of education, and recorded as a public record in the minutes of the board."

From July 1, 2004 through July 31, 2008, the District remitted dental premiums on Westfall Local School District Board member Thomas Timbrook's behalf in the amount of \$3,864.76 of which only \$2,400 was confirmed to have been billed by the District and paid in advance by him.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Thomas Timbrook, Westfall Local School District Board member, in the amount of \$1,464.76 in favor of the District's General Fund.

On October 9, 2008, Thomas Timbrook, Westfall Local School District Board member, repaid \$1,464.76, and the amount was credited to the District's General Fund.

Finding for Recovery Repaid Under Audit

Prior to September 29, 2007, Ohio Rev. Code Section 3313.202(D) stated any elected or appointed member of the board of education and the dependent children and spouse of the member may be covered, at the option of the member, as an employee of the school district under any benefit plan adopted under this section. The member shall pay to the school district the amount certified for that coverage under division (D)(1) or (2) of this section. Payments for such coverage shall be made, in advance, in a manner prescribed by the board. The member's exercise of an option to be covered under this section shall be in writing, announced at a regular public meeting of the board, and recorded as a public record in the minutes of the board.

From July 1, 2004 through April 30, 2006, the District remitted dental premiums on former Westfall Local School District Board member Laura Strittmatter's behalf in the amount of \$1,721.46 of which only \$1,000 was confirmed to have been billed by the District and paid in advance by her.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Laura Strittmatter, former Westfall Local School District Board member, in the amount of \$721.46 in favor of the District's General Fund.

On January 9, 2009, Laura Strittmatter, Former Westfall Local School District Board member, repaid \$721.46, and the amount was credited to the District's General Fund.

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



Mary Taylor, CPA
Auditor of State

January 13, 2009

Westfall Local School District
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For the Fiscal Year Ended June 30, 2007

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Westfall Local School District, Pickaway County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Members of the Board
Westfall Local School District
Independent Auditor's Report
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by 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. The schedule of federal awards expenditures 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.



Balestra, Harr & Scherer, CPAs, Inc.

September 17, 2008

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The discussion and analysis of the Westfall Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Westfall Local School District exceeded its liabilities at June 30, 2007 by \$8,269,137. This balance was comprised of a \$6,777,322 balance invested in capital assets net of related debt, a \$1,495,441 balance in net asset amounts restricted for specific purposes and a balance of (\$3,626) in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$51,271, which represents a 0.60 percent increase from 2006.
- ▶ General revenues accounted for \$12,880,883 or 79.29 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,363,779 or 20.71 percent of total revenues of \$16,244,662.
- ▶ The District had \$16,193,391 in expenses related to governmental activities; \$3,363,779 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$12,880,883 were adequate to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$12,723,318 in revenues and \$12,190,429 in expenditures in fiscal year 2007.

Using this Annual Report

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

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

Governmental Funds

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

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

Proprietary Funds

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

Fiduciary Funds

The District's only fiduciary funds are agency funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting. In accordance with GASB 34, fiduciary funds are not included in the government-wide statement.

Notes to the Basic Financial Statements

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2007 compared to fiscal year 2006:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2007	2006*
<u>Assets:</u>		
Current and Other Assets	\$8,497,233	\$7,527,547
Capital Assets, Net	12,965,965	13,343,124
<i>Total Assets</i>	21,463,198	20,870,671
<u>Liabilities:</u>		
Long-Term Liabilities	7,446,422	7,669,960
Other Liabilities	5,747,639	4,982,845
<i>Total Liabilities</i>	13,194,061	12,652,805
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	6,777,322	6,612,477
Restricted	1,495,441	1,869,552
Unrestricted (Deficit)	(3,626)	(264,163)
<i>Total Net Assets</i>	\$8,269,137	\$8,217,866

*Restated. See Note 20.

Current and other assets increased \$969,686 from fiscal year 2006 due primarily to an increase in taxes receivable.

Current (other) liabilities increased by \$764,794 or 15.3 percent primarily due to an increase in deferred revenue related to taxes receivable.

Long-term liabilities decreased by \$223,538 as the result of scheduled payments made on debt outstanding.

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

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

Table 2
Changes in Net Assets

	Governmental Activities	
	2007	2006*
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$1,022,071	\$1,156,377
Operating Grants and Contributions	2,323,916	2,087,803
Capital Grants and Contributions	17,792	0
<i>General Revenue:</i>		
Property Taxes	5,201,775	4,306,456
Unrestricted Grants and Entitlements	6,957,782	6,842,844
Payments in Lieu of Taxes	511,131	514,906
Investment Earnings	93,998	21,351
Miscellaneous	116,197	160,234
<i>Total Revenues</i>	16,244,662	15,089,971
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	7,086,123	6,498,762
Special	1,169,762	1,089,254
Vocational	23,525	24,688
Other	16,220	0

(Continued)

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 2
Changes in Net Assets

	<u>2007</u>	<u>2006*</u>
<i>Support Services:</i>		
Pupils	\$360,502	\$343,950
Instructional Staff	1,463,255	1,098,188
Board of Education	91,961	167,882
Administration	1,505,063	1,201,858
Fiscal	365,666	320,253
Business	75,201	64,732
Operation and Maintenance of Plant	1,297,876	1,091,200
Pupil Transportation	1,011,248	1,000,769
Central	82,214	103,167
<i>Operation of Non-Instructional Services:</i>		
Food Service	824,703	635,875
Extracurricular Activities	480,334	433,729
Interest and Fiscal Charges	339,738	602,809
<i>Total Expenses</i>	<u>16,193,391</u>	<u>14,677,116</u>
<i>Change in Net Assets</i>	51,271	412,855
Net Assets – Beginning of Year	<u>8,217,866</u>	<u>7,805,011</u>
Net Assets – End of Year	<u><u>\$8,269,137</u></u>	<u><u>\$8,217,866</u></u>

*Restated. See Note 20.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The most significant program expenses for the District are Regular Instruction, Administration, Instructional Staff, Special Instruction, Operation and Maintenance of Plant and Pupil Transportation. These programs account for 83.57 percent of the total governmental activities. Regular Instruction, which accounts for 43.76 percent of the total, represents costs associated with providing general educational services. Administration, which represents 9.29 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Instructional Staff, which represents 9.04 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students. Special Instruction, which represents 7.22 percent of the total cost, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant which represents 8.01 percent of total cost, represents costs associated with operating and maintenance of school facilities. Pupil Transportation, represents 6.24 percent of the total cost, which represents costs associated with transporting students to and from school, as well as activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 74.85 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has experienced a declining financial condition. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 32.02 percent and intergovernmental revenue made up 57.25 percent of the total revenue for the governmental activities in fiscal year 2007.

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

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2007, the District received \$7,267,028 through the State's foundation program, which represents 44.73 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 51.23 percent of governmental activities program expenses. Support services expenses make up 38.61 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2007. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007	2007	2006*	2006*
<i>Program Expenses:</i>				
Instruction	\$8,295,630	\$6,796,864	\$7,612,704	\$6,101,950
Support Services	6,252,986	5,296,338	5,391,999	4,502,354
Operation of Non-Instructional Services	824,703	181,486	635,875	35,716
Extracurricular Activities	480,334	215,186	433,729	190,107
Interest and Fiscal Charges	339,738	339,738	602,809	602,809
Total Expenses	<u>\$16,193,391</u>	<u>\$12,829,612</u>	<u>\$14,677,116</u>	<u>\$11,432,936</u>

*Restated. See Note 20.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$16,492,356 and expenditures and other financing uses of \$16,418,764.

Total governmental funds fund balance increased by \$73,592. The increase in fund balance for the year was most significant in the General Fund.

The District should remain stable in fiscal years 2008 and 2009, based upon most recent forecast. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2007, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

For the General Fund, the final budget basis revenue was \$12,065,761 representing a \$238,057 decrease from the original budget estimate of \$12,303,818. The final budget reflected a 1.93 percent decrease from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$12,121,032 representing a \$45,812 decrease from the original budget estimate of \$12,166,844.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$20.9 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$7.9 million. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006.

Table 4
Capital Assets & Accumulated Depreciation at Year End

	<u>Governmental Activities</u>	
	2007	2006
<i>Nondepreciable Capital Assets:</i>		
Land	\$105,604	\$105,604
<i>Depreciable Capital Assets:</i>		
Land Improvements	2,443,285	2,283,925
Buildings and Improvements	15,514,775	15,275,952
Furniture, Fixtures and Equipment	498,496	498,496
Vehicles	1,433,598	1,420,993
Library Books and Text Books	892,299	892,299
<i>Total Capital Assets</i>	20,888,057	20,477,269
<i>Accumulated Depreciation:</i>		
Land Improvements	(803,930)	(706,379)
Buildings and Improvements	(4,767,285)	(4,339,200)
Furniture, Fixtures and Equipment	(298,049)	(263,691)
Vehicles	(1,160,529)	(1,041,785)
Library Books and Text Books	(892,299)	(783,090)
<i>Total Accumulated Depreciation</i>	(7,922,092)	(7,134,145)
Capital Assets, Net	\$12,965,965	\$13,343,124

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

More detailed information pertaining to the District's capital asset activity can be found in Note 8 of the notes to the basic financial statements.

Debt Administration

At June 30, 2007, the District had \$5,467,116 in general obligation debt outstanding with \$320,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2007 compared to fiscal year 2006.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2007	2006*
General Obligation Bonds	\$5,467,116	\$5,659,820

*Restated. See Note 20.

More detailed information pertaining to the District's long-term debt activity can be found in Note 13 of the notes to the basic financial statements.

Current Issues

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

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

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

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

In 2006, the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

WESTFALL LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

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

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes to over 82 percent of the District's real estate valuation.

Contacting the District's Financial Management

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

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,190,919
Cash and Cash Equivalents with Fiscal Agents	185,273
Property Taxes Receivable	4,241,628
Accounts Receivable	166,019
Intergovernmental Receivable	565,378
Accrued Interest Receivable	54
Inventory Held for Resale	9,620
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	24,512
Deferred Charges	113,830
Nondepreciable Capital Assets	105,604
Depreciable Capital Assets, Net	<u>12,860,361</u>
<i>Total Assets</i>	<u>21,463,198</u>
<u>Liabilities:</u>	
Accounts Payable	138
Accrued Wages and Benefits	1,101,961
Intergovernmental Payable	379,316
Accrued Interest Payable	24,424
Deferred Revenue	3,911,776
Claims Payable	185,859
Matured Compensated Absences Payable	72,165
Early Retirement Incentive Payable	72,000
<i>Long-Term Liabilities:</i>	
Due within One Year	449,067
Due in More Than One Year	<u>6,997,355</u>
<i>Total Liabilities</i>	<u>13,194,061</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	6,777,322
<i>Restricted for:</i>	
Capital Outlay	538,011
Debt Service	418,894
Other Purposes	514,024
Set Asides	24,512
Unrestricted (Deficit)	<u>(3,626)</u>
<i>Total Net Assets</i>	<u><u>\$8,269,137</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets	
			Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>					
<i>Instruction:</i>					
Regular	\$7,086,123	\$404,063	\$487,532	\$17,792	(\$6,176,736)
Special	1,169,762	0	589,014	0	(580,748)
Vocational	23,525	0	365	0	(23,160)
Other	16,220	0	0	0	(16,220)
<i>Support Services:</i>					
Pupils	360,502	0	147,461	0	(213,041)
Instructional Staff	1,463,255	17,958	225,918	0	(1,219,379)
Board of Education	91,961	0	0	0	(91,961)
Administration	1,505,063	0	0	0	(1,505,063)
Fiscal	365,666	0	0	0	(365,666)
Business	75,201	0	0	0	(75,201)
Operation and Maintenance of Plant	1,297,876	0	0	0	(1,297,876)
Pupil Transportation	1,011,248	0	550,616	0	(460,632)
Central	82,214	0	14,695	0	(67,519)
<i>Operation of Non-Instructional Services:</i>					
Food Service	824,703	370,076	273,141	0	(181,486)
Extracurricular Activities	480,334	229,974	35,174	0	(215,186)
Interest and Fiscal Charges	339,738	0	0	0	(339,738)
 <i>Total Governmental Activities</i>	 <u>\$16,193,391</u>	 <u>\$1,022,071</u>	 <u>\$2,323,916</u>	 <u>\$17,792</u>	 <u>(12,829,612)</u>
 <u>General Revenues:</u>					
<i>Property Taxes Levied for:</i>					
					3,995,999
General Purposes					558,122
Debt Service					647,654
Capital Outlay					6,957,782
Grants and Entitlements not Restricted to Specific Programs					511,131
Payments in Lieu of Taxes					93,998
Investment Earnings					116,197
Miscellaneous					<u>116,197</u>
 <i>Total General Revenues</i>					 <u>12,880,883</u>
 Change in Net Assets					 51,271
 <i>Net Assets at Beginning of Year, Restated</i>					 <u>8,217,866</u>
 <i>Net Assets at End of Year</i>					 <u><u>\$8,269,137</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2007*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,643,665	\$350,457	\$1,101,354	\$3,095,476
Property Taxes Receivable	3,169,864	497,341	574,423	4,241,628
Accounts Receivable	166,019	0	0	166,019
Intergovernmental Receivable	342,218	56,330	160,413	558,961
Accrued Interest Receivable	54	0	0	54
Interfund Receivable	351,005	0	0	351,005
Inventory Held for Resale	0	0	9,620	9,620
<i>Restricted Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	24,512	0	0	24,512
<i>Total Assets</i>	<u>\$5,697,337</u>	<u>\$904,128</u>	<u>\$1,845,810</u>	<u>\$8,447,275</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$100	\$0	\$38	\$138
Accrued Wages and Benefits	981,780	0	120,181	1,101,961
Intergovernmental Payable	340,859	0	38,457	379,316
Interfund Payable	0	0	351,005	351,005
Deferred Revenue	3,261,116	487,934	565,674	4,314,724
Matured Compensated Absences Payable	52,562	0	19,603	72,165
Early Retirement Incentive Payable	54,000	0	18,000	72,000
<i>Total Liabilities</i>	<u>4,690,417</u>	<u>487,934</u>	<u>1,112,958</u>	<u>6,291,309</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	224,038	0	69,129	293,167
Reserved for Property Taxes	416,985	65,737	76,211	558,933
Reserved for Capital Acquisition	24,512	0	0	24,512
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	341,385	0	0	341,385
Special Revenue Funds	0	0	148,249	148,249
Debt Service Fund	0	350,457	0	350,457
Capital Projects Funds	0	0	439,263	439,263
<i>Total Fund Balances</i>	<u>1,006,920</u>	<u>416,194</u>	<u>732,852</u>	<u>2,155,966</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,697,337</u>	<u>\$904,128</u>	<u>\$1,845,810</u>	<u>\$8,447,275</u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007*

Total Governmental Funds Balances		\$2,155,966
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,965,965
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:		
Property taxes	233,077	
Intergovernmental	3,852	
Accounts	166,019	
Total receivables not reported in funds		402,948
Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.		113,830
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
General obligation bonds	(5,467,116)	
Premium on bonds	(586,520)	
Accrued interest	(24,424)	
Capital leases	(575,230)	
Compensated absences	(817,556)	
Total liabilities not reported in funds		(7,470,846)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are not included in governmental activities in the statement of net assets.		101,274
<i>Net Assets of Governmental Activities</i>		\$8,269,137

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$3,969,928	\$559,307	\$647,056	\$5,176,291
Intergovernmental	7,699,301	55,191	1,344,729	9,099,221
Interest	89,571	3,982	445	93,998
Tuition and Fees	370,712	0	0	370,712
Gifts and Donations	10,384	0	270,899	281,283
Extracurricular Activities	501	0	231,055	231,556
Charges for Services	0	0	370,076	370,076
Payments in Lieu of Taxes	511,131	0	0	511,131
Miscellaneous	71,790	0	32,571	104,361
<i>Total Revenues</i>	<u>12,723,318</u>	<u>618,480</u>	<u>2,896,831</u>	<u>16,238,629</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	6,141,162	0	668,279	6,809,441
Special	747,897	0	355,914	1,103,811
Vocational	23,822	0	0	23,822
Other	16,396	0	0	16,396
<i>Support Services:</i>				
Pupils	304,083	0	149,485	453,568
Instructional Staff	844,653	0	489,971	1,334,624
Board of Education	92,075	0	0	92,075
Administration	1,423,260	0	45,977	1,469,237
Fiscal	343,091	10,621	18,887	372,599
Business	75,201	0	0	75,201
Operation and Maintenance of Plant	1,019,869	0	245,958	1,265,827
Pupil Transportation	880,207	0	138,575	1,018,782
Central	13,989	0	68,406	82,395
Operation of Non-Instructional Services	0	0	667,284	667,284
Extracurricular Activities	172,929	0	293,208	466,137
Capital Outlay	0	0	357,100	357,100
<i>Debt Service:</i>				
Principal Retirement	65,114	310,000	0	375,114
Interest and Fiscal Charges	26,681	216,497	0	243,178
<i>Total Expenditures</i>	<u>12,190,429</u>	<u>537,118</u>	<u>3,499,044</u>	<u>16,226,591</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>532,889</u>	<u>81,362</u>	<u>(602,213)</u>	<u>12,038</u>
<u>Other Financing Sources (Uses):</u>				
Inception of Capital Lease	101,978	0	0	101,978
Transfers In	0	0	151,749	151,749
Transfers Out	(192,173)	0	0	(192,173)
<i>Total Other Financing Sources(Uses)</i>	<u>(90,195)</u>	<u>0</u>	<u>151,749</u>	<u>61,554</u>
<i>Net Change in Fund Balances</i>	442,694	81,362	(450,464)	73,592
<i>Fund Balances at Beginning of Year</i>	<u>564,226</u>	<u>334,832</u>	<u>1,183,316</u>	<u>2,082,374</u>
<i>Fund Balances at End of Year</i>	<u>\$1,006,920</u>	<u>\$416,194</u>	<u>\$732,852</u>	<u>\$2,155,966</u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds	\$73,592
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(377,159)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:	
Property taxes	25,595
Intergovernmental	(30,897)
Accounts	11,335
Total revenues not reported in the funds	6,033
Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	375,114
Interest expense in the statement of activities differs from the amount reported in governmental funds for three reasons. Additional accrued interest was calculated for bonds payable, and the amortization of the advance refunding premium, and accretion recognized on capital appreciation bonds.	
Accrued Interest	(8,807)
Amortize Premium	36,657
Accretion	(117,296)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges.	(7,114)
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities:	
Inception of capital leases	(101,978)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Compensated absences	31,041
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental expenditures and the related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the activities.	141,188
<i>Change in Net Assets of Governmental Activities</i>	\$51,271

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$3,482,278	\$3,283,316	\$3,748,316	\$465,000
Intergovernmental	7,835,876	7,699,301	7,699,301	0
Interest	18,915	82,273	89,644	7,371
Tuition and Fees	384,730	370,712	370,712	0
Gifts and Donations	11,194	10,384	10,384	0
Extracurricular Activities	927	501	501	0
Payments in Lieu of Taxes	530,353	511,131	511,131	0
Miscellaneous	39,545	108,143	66,260	(41,883)
<i>Total Revenues</i>	12,303,818	12,065,761	12,496,249	430,488
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	6,175,598	5,995,908	5,994,316	1,592
Special	777,074	750,622	750,622	0
Vocational	26,902	23,743	23,743	0
Other		16,846	16,846	0
<i>Support Services:</i>				
Pupils	359,701	336,781	335,595	1,186
Instructional Staff	769,372	848,466	848,466	0
Board of Education	171,532	92,604	92,899	(295)
Administration	1,290,034	1,409,910	1,408,858	1,052
Fiscal	316,600	335,653	335,616	37
Business	83,847	81,251	81,201	50
Operation and Maintenance of Plant	1,022,794	1,081,126	1,076,097	5,029
Pupil Transportation	982,913	943,568	941,764	1,804
Central	14,477	22,401	22,401	0
Extracurricular Activities	176,000	182,153	182,153	0
<i>Total Expenditures</i>	12,166,844	12,121,032	12,110,577	10,455
<i>Excess of Revenues Over Expenditures</i>	136,974	(55,271)	385,672	440,943
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Assets	6,754	5,530	5,530	0
Advances Out	0	(122,805)	(122,805)	0
Transfers In	70,209	0	0	0
Transfers Out	(100,000)	(192,173)	(192,173)	0
<i>Total Other Financing Sources (Uses)</i>	(23,037)	(309,448)	(309,448)	0
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</i>	113,937	(364,719)	76,224	440,943
<i>Fund Balance at Beginning of Year</i>	1,340,081	1,340,081	1,340,081	0
Prior Year Encumbrances Appropriated	27,840	27,840	27,840	0
<i>Fund Balance at End of Year</i>	\$1,481,858	\$1,003,202	\$1,444,145	\$440,943

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2007

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$95,443
Cash and Cash Equivalents with Fiscal Agents	185,273
Intergovernmental Receivable	<u>6,417</u>
<i>Total Assets</i>	<u>287,133</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>185,859</u>
<i>Total Liabilities</i>	<u>185,859</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$101,274</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007*

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$1,889,999</u>
<u>Operating Expenses:</u>	
Claims	1,640,014
Other	<u>149,221</u>
<i>Total Operating Expenses</i>	<u>1,789,235</u>
<i>Income before Transfers</i>	100,764
Transfers In	<u>40,424</u>
<i>Change in Net Assets</i>	141,188
<i>Net Assets at Beginning of Year</i>	<u>(39,914)</u>
<i>Net Assets at End of Year</i>	<u><u>\$101,274</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$1,889,999
Cash Payments for Claims	(1,634,112)
Other Cash Payments	<u>(236,618)</u>
<i>Net Cash from Operating Activities</i>	<u>19,269</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfer In	<u>40,424</u>
<i>Net Cash from Noncapital Financing Activities</i>	<u>40,424</u>
<i>Net Increase in Cash and Cash Equivalents</i>	59,693
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>221,023</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$280,716</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	\$100,764
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>(Increase) Decrease in Assets:</i>	
Intergovernmental Receivables	(6,417)
<i>Increase (Decrease) in Liabilities:</i>	
Intergovernmental Payable	(80,980)
Claims Payable	<u>5,902</u>
Total Adjustments	<u>(81,495)</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$19,269</u></u>

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2007

Agency

Assets:

Equity in Pooled Cash and Cash Equivalents

\$40,720

Liabilities:

Current Liabilities:

Intergovernmental Payable

3,121

Due to Students

37,599

Total Liabilities

\$40,720

See accompanying notes to the basic financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

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

The District was established through the consolidation of existing land areas and school districts. It is staffed by 66 non-certificated employees, 110 certificated full-time teaching personnel, and 6 administrative employees who provide services to 1,692 students.

Reporting Entity

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

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

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

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

- Boosters Clubs
- Parent-Teacher Organizations

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

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

Proprietary Fund

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

Fiduciary Funds

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

The District participates in a claims servicing pool that pays employee health and dental insurance claims on the District's behalf. The balance of the District's funds held by the claims administrator and the fiscal agent at June 30, 2007, is presented as "Cash and Cash Equivalents With Fiscal Agent."

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

During the fiscal year 2007, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$89,571, which includes \$46,703 assigned from other District funds.

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

F. Inventory

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

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

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for capital acquisition. See note 16 for additional information regarding set-asides.

H. Capital Assets

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

K. Accrued Liabilities and Long-Term Liabilities

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

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

L. Net Assets

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

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

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

The District reports restricted net assets of \$1,495,441; none of which is restricted by enabling legislation.

M. Fund Balance Reserves

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

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

N. Operating Revenues and Expenses

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

O. Interfund Transactions

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

P. Estimates

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

Q. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflects the amounts in the certificate when the first permanent appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflects the amounts in the final amended certificate issued during fiscal year 2007.

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 3 - ACCOUNTABILITY

The following funds had a deficit in either their fund balance or net assets as of June 30, 2007:

	<u>Deficit Fund Balance/ Net Assets</u>
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$251,609
Education Foundation	600
Management Information System	3,142
Title VI - IDEA Part B	54,286
Title I	75,406
Improving Teacher Quality	336

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$442,694
<i>Adjustments:</i>	
Revenue Accruals	(227,069)
Expenditure Accruals	303,890
Encumbrances	(224,038)
Other Sources (Uses)	<u>(219,253)</u>
Budget Basis	<u><u>\$76,224</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

Public depositories must give security for all public funds on deposit. 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.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

Cash on Hand: At fiscal year-end, the District had \$2,087 in undeposited cash on hand which is included on the basic financial statements of the District, as part of the "Equity in Pooled Cash and Cash Equivalents".

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

At June 30, 2007, the carrying amount of all District deposits was \$1,576,643, which includes \$185,273 cash with fiscal agents. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2007, \$120,000 of the District's bank balance of \$970,083 was covered by Federal Deposit Insurance. The remaining balance of \$850,083 was collateralized with securities held by the District's financial institution's collateral pool.

Investments: As of June 30, 2007, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$1,862,694	\$1,862,694
Totals	<u>\$1,862,694</u>	<u>\$1,862,694</u>

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

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

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,441,424	\$0
<i>Investments:</i>		
STAROhio	(1,862,694)	1,862,694
Total	1,578,730	1,862,694
Petty Cash on Hand	(2,087)	0
GASB Statement No. 3	<u>\$1,576,643</u>	<u>\$1,862,694</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property tax revenue received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out - the assessed percentage for property including inventory for 2006 was 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

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

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

The District receives property taxes from Pickaway County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007 are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represents the June 2007 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2007 was \$558,933 and is recognized as revenue. Of this total amount, \$416,985 was available to the General Fund, \$65,737 was available to the Bond Retirement Fund, \$67,346 was available to the Permanent Improvement Capital Projects Fund and \$8,865 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$146,242,550	80.70%	\$148,614,430	82.03%
Public Utility Personal	30,596,120	16.88%	29,180,410	16.10%
Tangible Personal Property	4,380,903	2.42%	3,382,539	1.87%
Total Assessed Value	<u>\$181,219,573</u>	<u>100.00%</u>	<u>\$181,177,379</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$38.05		\$38.05	

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of property taxes, interfund, interest, accounts and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivable follows:

Governmental Activities:	
<hr/>	
<i>Major Funds:</i>	
General	\$342,218
Bond Retirement	56,330
<i>Nonmajor Special Revenue Funds:</i>	
Classroom Facilities Maintenance	7,666
Title VI - IDEA Part B	53,072
Title I	36,671
Title V	533
Drug Free Schools	1,304
IDEA Preschool Grant for Handicapped	1,368
Miscellaneous Federal Grant Fund	3
Total Nonmajor Special Revenue Funds	<hr/> 100,617 <hr/>
<i>Nonmajor Capital Projects Fund:</i>	
Permanent Improvement	<hr/> 59,796 <hr/>
Internal Service Fund	<hr/> 6,417 <hr/>
Total Intergovernmental Receivable	<hr/> <hr/> \$565,378 <hr/> <hr/>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2007 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2006</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2007</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$105,604	\$0	\$0	\$105,604
<i>Depreciable Capital Assets:</i>				
Land Improvements	2,283,925	159,360	0	2,443,285
Buildings and Improvements	15,275,952	238,823	0	15,514,775
Furniture, Fixtures and Equipment	498,496	0	0	498,496
Vehicles	1,420,993	12,605	0	1,433,598
Library Books and Text Books	892,299	0	0	892,299
Total Depreciable Capital Assets	20,371,665	410,788	0	20,782,453
Total Capital Assets	20,477,269	410,788	0	20,888,057
<i>Accumulated Depreciation:</i>				
Land Improvements	(706,379)	(97,551)	0	(803,930)
Buildings and Improvements	(4,339,200)	(428,085)	0	(4,767,285)
Furniture, Fixtures and Equipment	(263,691)	(34,358)	0	(298,049)
Vehicles	(1,041,785)	(118,744)	0	(1,160,529)
Library Books and Text Books	(783,090)	(109,209)	0	(892,299)
Total Accumulated Depreciation	(7,134,145)	(787,947)	0	(7,922,092)
Total Net Capital Assets	\$13,343,124	(\$377,159)	\$0	\$12,965,965

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$331,669
Special	50,053
<i>Support Services:</i>	
Pupils	11,777
Instructional Staff	137,858
Administration	36,194
Fiscal	2,945
Operation and Maintenance of Plant	41,479
Pupil Transportation	118,744
Operation of Non-Instructional Services	41,159
Extracurricular Activities	16,069
	<hr/>
Total Depreciation Expense	<u><u>\$787,947</u></u>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 9- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the District contracted with Indiana Insurance for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

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

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

For fiscal year 2007, the District participated in the Shakley Unservile Inc. Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 9- RISK MANAGEMENT - (Continued)

The claims liability of \$185,859 reported at June 30, 2007 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2006	\$204,241	\$1,602,217	\$1,626,501	\$179,957
2007	179,957	1,640,014	1,634,112	185,859

NOTE 10 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$234,209, \$214,461, and \$158,231, respectively; 54.92 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$105,577 representing the unpaid contribution for fiscal year 2007, is recorded as a liability within the financial statements.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

State Teachers Retirement System

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

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 10- DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the lapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity or a lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive only member contributions with interest before age 65 or employment is terminated.

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

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14 % for employers.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 10- DEFINED BENEFIT PENSION PLANS - (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$850,744, \$793,272, and \$669,437 respectively; 84.76% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$129,658 represents the unpaid contribution for fiscal year 2007.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

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

The State Teachers Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2007, and June 30, 2006, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$65,442 during fiscal year 2007. The balance in the Health Care Stabilization Fund was \$4.1 billion on June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000. There were 122,934 eligible benefit participants.

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

After the allocation for basic benefits, the remainder of the employer's 14% contributions is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. This surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2007, were \$127,615,614. At June 30, 2007, the Retirement Systems' net assets available for payment of health care benefits were \$386.4 million. The number of benefit recipients currently receiving health care benefits is approximately 55,818. For the District, the amount to fund health care benefits, including surcharge, equaled \$82,970 during the 2007 fiscal year.

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

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

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

Health, Prescription Drug and Dental Insurance

In July 1994, the District joined the Ross County School Employees Insurance Consortium (RCSEIC) to self insure its medical claims. RCSEIC currently includes 16 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent. The District had a cash reserve held by a fiscal agent as of June 30, 2007 in the amount of \$185,273.

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

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

Early Retirement Incentive

If an employee resigns his/her employment with the Board for retirement purposes in the school year when the employee first attains 30 years of STRS retirement credit, he/she shall be eligible to receive a lump sum payment of \$18,000 in addition to severance pay as provided in his/her contract. This early retirement incentive has been booked as a liability in the financial statements for those employees who have taken advantage of this offer.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 13 - LONG-TERM LIABILITIES

The changes in the District's long-term obligations during fiscal year 2007 were as follows:

	Restated Principal Outstanding at July 1, 2006	Additions	Deductions	Principal Outstanding at June 30, 2007	Amount Due In One Year
<i>Governmental Activities:</i>					
General Obligation Bonds:					
2000 School Facilities Construction					
4.60 - 13.01%					
Serial Bonds	\$490,000	\$0	\$240,000	\$250,000	\$250,000
Capital Appreciation Bonds	170,732	0	0	170,732	0
Accretion	170,838	45,864	0	216,702	0
2005 Refunding, 3.00 - 4.10%					
Serial Bonds	4,470,000	0	70,000	4,400,000	70,000
Capital Appreciation Bonds	319,991	0	0	319,991	0
Accretion	38,259	71,432	0	109,691	0
Total General Obligation Bonds	5,659,820	117,296	310,000	5,467,116	320,000
Premium on Bonds	623,177	0	36,657	586,520	0
Capital Leases	538,366	101,978	65,114	575,230	48,380
Compensated Absences	848,597	212,941	243,982	817,556	80,687
Total Governmental Activities Long-Term Obligations	<u>\$7,669,960</u>	<u>\$432,215</u>	<u>\$655,753</u>	<u>\$7,446,422</u>	<u>\$449,067</u>

2000 School Facilities Construction & Improvement Bonds - On November 2, 1999, the District issued \$6,505,730 in voted general obligation bonds. The bond issue included serial, term and capital appreciation bonds in the amount of \$33,275,000, \$3,060,000 and \$170,732, respectively. The serial bonds were refunded in October 2005 for the entire balance less \$490,000, which will be repaid in fiscal years 2007 and 2008.

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

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 13 - LONG-TERM LIABILITIES - (Continued)

2005 Refunding Bonds - In October 2005, the District issued \$4,879,991 of voted general obligation bonds for the partial advance refunding of the 2000 series bonds. The \$623,177 premium on the issuance of the refunding bonds is netted against this new debt and will be amortized over the life of this new debt, which has a remaining life of 17 years. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$377,888 and a reduction of \$509,755 in future debt service payments. \$4,560,000 was issued as serial bonds with interest rates ranging from 3.0% to 4.10%. \$319,911 was issued as capital appreciation bonds with an interest rate of 25.52%. The bonds were issued for a seventeen year period, with final maturity December 1, 2022. The refunding bonds will be retired from the Bond Retirement Debt Service Fund.

The serial bonds and capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2011, 2012 and 2013. The maturity amount of the bonds is \$1,030,000.

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

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

Fiscal Year Ending June 30	2000 Serial Bonds Principal	2000 Serial Bonds Interest	2000 Capital Appreciation*	2005 Serial Bonds Principal	2005 Serial Bonds Interest	2005 Capital Appreciation*
2008	\$250,000	\$291,695	\$0	\$70,000	\$183,450	\$0
2009	0	0	265,000	75,000	181,775	0
2010	0	0	265,000	75,000	179,025	0
2011	0	0	0	0	177,790	340,000
2012	0	0	0	0	177,790	345,000
2013 - 2017	0	0	0	1,465,000	749,600	345,000
2018 - 2022	0	0	0	2,220,000	328,000	0
2023	0	0	0	495,000	9,900	0
Total	<u>\$250,000</u>	<u>\$291,695</u>	<u>\$530,000</u>	<u>\$4,400,000</u>	<u>\$1,987,330</u>	<u>\$1,030,000</u>

*Total maturity amounts per these amortization schedules do not agree with the balances in schedule on page 49 because these amounts disclose fully accreted maturity balances whereas page 49 discloses original issuance balances and accumulated accretion.

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2007, are voted debt margin of \$10,838,848 and an unvoted debt margin of \$181,177.

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 14 - CAPITAL LEASES

In prior years, the District has entered into agreements to lease fitness equipment and replace a roof. In fiscal year 2007, the District entered into a lease for copiers. The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. The capital leased assets, consisting of copiers, fitness equipment and roof replacement, have been capitalized in the amount of \$823,918 in the governmental activities, which represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2007 were \$65,114 in the governmental funds.

The District's future minimum lease payments and present value of net minimum lease payments required under these capital lease obligations as of June 30, 2007 are as follows:

<u>Year Ended December 31,</u>	<u>Capital Lease Payments</u>
2008	\$76,765
2009	76,991
2010	61,192
2011	38,956
2012	39,041
2013-2017	194,849
2018-2022	191,857
2023-2027	152,437
Total Future Minimum Lease Payments	832,088
Less: Amount Representing Interest	(256,858)
Present Value of Net Minimum Lease Payments	<u><u>\$575,230</u></u>

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2007, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$351,005	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Food Service	0	210,000
Public School Support	0	12,540
Education Foundation	0	2,000
District Managed Activities	0	29,314
Safe School Helpline Grant	0	1,970
Title VI-IDEA Part B	0	56,772
Title I	0	33,016
Title V	0	3,033
Drug Free School Grant	0	2,360
Total Nonmajor Special Revenue Fund	0	351,005
Total	\$351,005	\$351,005

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

NOTE 15 - INTERFUND ACTIVITY - (Continued)

During fiscal year ended June 30, 2007, the District's interfund transfers were as follows:

Fund	Transfers To	Transfers From
General Fund	\$0	\$192,173
<i>Nonmajor Special Revenue Funds:</i>		
Food Service	37,212	0
Management Information System	14,388	0
Data - Communication	5,349	0
Title VI-IDEA Part B	77,181	0
Title V	1,821	0
E-RATE	15,798	0
Total Nonmajor Special Revenue Funds	151,749	0
Internal Service Fund	40,424	0
Total	\$192,173	\$192,173

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

WESTFALL LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

NOTE 16 - STATUTORY SET-ASIDES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-Aside Reserve Balance as of June 30, 2006	\$105,867	\$0	\$105,867
Current Year Set-Aside Requirement	243,599	243,599	487,198
Qualifying Disbursements	(490,323)	(219,087)	(709,410)
Totals	<u>(140,857)</u>	<u>24,512</u>	<u>(116,345)</u>
Set-Aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$24,512</u>	<u>\$24,512</u>
Total Restricted Assets			<u>\$24,512</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks set-aside amounts below zero. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements of future years.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

The District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, Lawrence, Pickaway, and Gallia Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The District paid SCOCA \$83,620 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School District, P.O. Box 577, 175 Beaver Creek., Piketon, Ohio, 45661.

Ross County School Employees Insurance Consortium (RCSEIC)

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

WESTFALL LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Central Ohio Special Education Regional Resource Center (COSERRC)

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

NOTE 18 - INSURANCE PURCHASING POOL

Shakley Unservile Inc. Worker's Compensation Group Rating Plan

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

NOTE 19 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

NOTE 20 - RESTATEMENT

Beginning balances required restated due to an error in debt balances related to errors in calculating accretion, inaccurate posting of principal payments in prior years, the omission of activity within an outside bank account, and the identification of an unrecorded receivable. These restatements had the following effect on beginning balances:

	<u>Governmental Activities</u>	<u>Other Governmental Funds</u>
Net Assets, June 30, 2006	\$8,023,760	1,179,124
Restatement	194,106	4,192
Restated Net Assets, June 30, 2006	<u>\$8,217,866</u>	<u>1,183,316</u>

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	O5PU	10.553	\$ 20,472	\$ -	\$ 20,472	\$ -
National School Lunch Program	LLP4	10.555	174,885	-	174,885	-
Total Nutrition Cluster			195,357	195,357	195,357	195,357
Food Donation	NA	10.550	-	87,959	-	87,959
Total United States Department of Agriculture			195,357	87,959	195,357	87,959
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Educational Agencies	C1S1	84.010	358,074	-	360,623	-
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BSF	84.027	402,257	-	422,366	-
Special Education - Preschool Grants	PGS1	84.173	9,112	-	9,112	-
Total Special Education Cluster			411,369	411,369	431,478	431,478
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	9,289	-	9,726	-
State Grants for Innovative Programs	C2S1	84.298	3,770	-	4,075	-
Education Technology State Grants	TJS1	84.318	3,565	-	3,308	-
Improving Teacher Quality State Grants	TRS1	84.367	89,100	-	81,312	-
Total United States Department of Education			875,167	875,167	890,522	890,522
Total Federal Financial Assistance			\$ 1,070,524	\$ 87,959	\$ 1,085,879	\$ 87,959

NA - Not Available

See accompanying notes to the schedule of federal awards

WESTFALL LOCAL SCHOOL DISTRICT
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

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

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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*

Westfall Local School District
19463 Pherson Pike
Williamsport, Ohio 43164

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Westfall Local School District, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These items are identified in the accompanying schedule of findings and questioned costs as item 2007-001 through 2007-013.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider item 2007-001 described above to be a material weakness.

Westfall Local School District

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

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of District in a separate letter dated September 17, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Balestra, Harr & Scherer, CPAs, Inc.

September 17, 2008

BALESTRA, HARR & SCHERER CPAs, INC.

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

Westfall Local School District
19463 Pherson Pike
Williamsport, Ohio 43164

Compliance

We have audited the compliance of the Westfall Local School District, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Internal Control Over Compliance (Continued)

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Balestra, Harr & Scherer, CPAs, Inc.

September 17, 2008

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

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

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

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

Finding 2007-001

Material Weakness – Audit Adjustments

Material and immaterial misstatements were identified during the course of the audit which have not been prevented or detected by the School District's internal controls over financial reporting. Material misstatements were identified in the following areas:

- Taxes receivable,
- Intergovernmental receivable, and
- Deferred revenue

Immaterial misstatements were identified in the following areas:

- Debt,
- Accounts receivable,
- Tax revenue,
- Net assets, and
- Beginning net assets

All material misstatements were corrected, as well as certain immaterial misstatements due to their nature. These corrections are reflected in the financial statements. Correction of other immaterial items was waived.

The School District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response:

Statements will be adjusted.

Finding 2007-002

Significant Deficiency – Bank Reconciliations

The treasurer and budgetary clerk performed reconciliations of the District's bank accounts on a monthly basis. The budgetary clerk prepared checks for signature and reconciled canceled checks to the check register and bank statements. The Treasurer prepared manual checks, was the lone signatory on the account and completed the reconciliation process. The reconciliation was given to the Board for their review and approval at their monthly meetings.

In March 2007, the treasurer stopped allowing the budgetary clerk to perform the reconciliation of canceled checks. By not allowing another individual to review the canceled checks received from the bank, the treasurer was able to conceal the checks written to himself.

We recommend that an employee independent of the cash receipt and disbursement activities review the bank reconciliations for any unusual items and document their approval. The bank reconciliation should include a comparison of the check register to the canceled checks and bank statement to ensure that payees and amounts expended agree to the accounting system. Additionally, we recommend that the District require two signatures on checks and that those individuals designated as the signatories not prepared the checks or perform the reconciliations.

Client Response:

The Treasurer's staff is being re-trained so that separation of duties occurs. Bank reconciliations are provided to the Board of Education on a monthly basis. Checks are electronically signed and there is no methodology for printing checks twice for signature. All checks are printed sequentially by number and presented to the board of education on a monthly basis. This report includes the processing system's vendor, date, and amount.

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

Finding 2007-003

Significant Deficiency – Cancelled Check Image Review

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

Client Response:

The district did contact the bank and both images are now included in the information provided by the bank.

Finding 2007-004

Significant Deficiency – Issuance of checks

Sequential pre-numbered checks should be issued for expenditures in order to provide accounting control over the disbursement of funds. Examination of the District's canceled checks noted that duplicate check numbers were issued in nine instances. Additionally, manual checks were issued and not posted to the computerized check register.

We recommend that strict numerical control be maintained over all checks issued and that checks be issued in sequence. The District should limit the use of manual checks and reconcile manual checks issued to the computerized check register to aid in the proper reporting of monies expended. Any discrepancies identified or sequence gaps should be investigated and resolved.

Client Response:

The strongest control we can offer is that manual checks are not allowed and that is the District's new policy. All checks are processed or entered into the State of Ohio School Accounting System. The reports are credentialed by the State's software and provided to the Board of Education on a monthly basis.

Finding 2007-005

Significant Deficiency – Outside Bank Account

It was discovered during the audit period that there was an outside bank account operated by the Middle School Principal that was not recorded within the District's books. Failure to identify and record outside bank accounts and the related activity results in misstatement of the financial statements and increases the risk to the District of fraudulent activity. The District should implement procedures to ensure that all public funds are received and disbursed in accordance with established policies and procedures, including such receipts and disbursements attributed to outside accounts.

Client Response:

This item is currently being audited and once the full findings are known the District may respond further. For now, the account has been closed and the funds were transferred to the District's account.

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

Finding 2007-006

Significant Deficiency – Food Service Segregation of Duties

Student account deposits for food service are counted by only one employee, and deposits are not subsequently verified or reviewed prior to being submitted to the Treasurer's office for deposit. Inadequate segregation of duties could result in errors or irregularities going undetected for a significant amount of time. The District should implement adequate control procedures to ensure that food service account deposits are verified and reviewed by an individual independent of the receipting process before submitting the monies to the Treasurer's office.

Client Response:

The personnel responsible for depositing will be required to submit a copy of the supporting system report with each deposit.

Finding 2007-007

Significant Deficiency – Food Service Fund Negative Expenses

The Treasurer discovered during the course of the audit that the District recorded \$28,034 in reimbursements from Headstart as negative expenditures in the Food Service fund.

Headstart reimbursements should be recorded as receipts into the District's General fund. The District appears to have recorded these receipts as negative expenditures in the Food Service fund to conceal a deficit in food service operations.

This has resulted in an immaterial misstatement of General fund revenues, Food Service fund expenses, and cash fund balances in both funds.

The District should ensure that all receipts are posted as such and in the proper funds, according to their type and source. The food service fund should be monitored throughout the year, and the District should transfer money from the General fund as needed to maintain a positive fund balance.

Client Response:

The food service fund is being monitored with the overall procedures necessary to eliminate a \$160,000 operating deficit over fiscal years 2007 and 2008. There has been a change in personnel within the Treasurer's office and the miscoding of this revenue was actually discovered in the internal audit procedures resulting from the change in personnel. The Treasurer believes that the combination of internal auditing and external auditing is sufficient to find errors of this nature. In addition, the current accounts receivable personnel is well-versed in the functions of accounting knowledge required to make correct judgment relative to posting.

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

Finding 2007-008

Significant Deficiency – Duplicate Payment of Invoice

While testing non-payroll disbursements, it was noted that the District paid one vendor two times for the same invoice. The initial payment of \$916.30 was made on 9/29/06 with check number 105323, and again on 10/13/06 with check number 105474. The District has since corrected this issue with the vendor.

Invoices should be reviewed before checks are issued to ensure that the vendor is not seeking payment for goods or services for which payment has already been made. Failure to properly review invoices could result in the District paying for goods or services it did not receive.

The District should ensure that all invoices are reviewed prior to payments being made. This should include a review of the invoice to ensure the goods or services were received, a review of the check register to ensure that payment has not already been made, and a recalculation of the total amount invoiced to ensure that the correct amount is being charged. The review should be indicated with a stamp or signature demonstrating that the invoice is “OK” to pay.

Client Response:

The District actually discovered this duplicate payment in its normal proofing process and did recover an account adjustment with the vendor on the very next statement. The District does presently: have personnel outside of the Treasurer’s office review invoices and acknowledge that goods are received, the District also recalculates invoices to ensure that the charge is correct. The invoices are also marked “OK” to pay by the personnel receiving the goods, not the accounts payable department. The internal controls did find this error and correct it which is a good indicator, however we can always do better and will explore additional controls for future processing.

Finding 2007-009

Significant Deficiency – Failure to Properly Issue 1099s

The Treasurer discovered during the course of the audit that a checking account had been opened under the District’s EIN for the Mustang Parent Pride Program (MP3). The MP3 was involved in fundraising activities, one of which was a raffle contest in which the winners were awarded cash prizes. Many of these prizes were in excess of \$600 and therefore required to be taxed; however the District did not issue IRS Tax Forms 1099 to the prize recipients. Furthermore, the District did not maintain documentation of the names of the individuals who won cash prizes, or the amounts that were awarded.

Federal tax regulations require that governments prepare 1099 forms for individuals, not employed by the District, to whom \$600 or more is paid during the course of a calendar year.

Failure to issue 1099 forms as required and maintain documentation of the awards has resulted in the District not reporting payments made to individuals as required by the IRS.

The District should maintain proper documentation detailing award winners and amounts awarded. The District should also ensure that 1099 forms are prepared as required.

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

Finding 2007-009 (Continued)

Significant Deficiency – Failure to Properly Issue 1099s (Continued)

Client Response:

The transactions in question were not approved by the Board of Education. The transactions were approved as acceptable by the Auditor of State of Ohio, some expenditures were approved by the Auditor of State without the actual names of vendors receiving the money. Since the Board of Education has not authorized the expenditures, does not have the information identifying the names, addresses, etc., of winners or other vendors paid from the MP3 account, the District is not empowered to correct the matter. Further, it is the position of the Board of Education that the funds for these transactions were never appropriated by the Board of Education, no purchase order was ever issued, and the District's purchasing agent did not approve the transaction, therefore the transactions cannot be lawful expenditures of the District.

Finding 2007-010

Significant Deficiency – Failure to Distribute Salary Notices

It was discovered during the audit that the District does not send salary notices to its employees prior to the start of each school year.

Failure to distribute salary notices to employees has resulted in the District compensating many of its employees with salaries that are inconsistent with the board approved salary schedules, which are based on years of service and level of education.

The District should distribute salary notices to each of its employees prior to the start of each school year. The notices should document the employees' years of service and education level on which their salaries will be based, as well as the salary that will be earned.

Client Response:

The current Treasurer implemented a comprehensive salary notification process in the Spring of 2008. The notices include the information suggested by the auditors. This practice will continue.

Finding 2007-011

Significant Deficiency – Board Members' Insurance

The Treasurer discovered during the course of the audit that a board member, who had been receiving dental insurance through the District for several years, had not been billed properly by the District for his coverage. Upon further review by the audit firm, it was determined that 2 board members were receiving dental insurance and one member was receiving health insurance.

Although it is permissible for board members to receive insurance coverage through the District, it must be approved by the Board, and the members must pay for the full cost of the coverage in advance.

Board members were only reimbursing the District a flat rate for dental insurance for the period they were covered which was an amount less than the premium. Also Board member dental and health insurance reimbursements did not appear to be collected either in advance or for each month covered. Adequate controls were not in place to either ensure payments were being received in advance or for the correct premium amount.

This lack of control resulted in the failure of the District to properly bill the board member for the full cost of his insurance coverage and has resulted in board members failing to pay in advance the full amounts obligated to be paid.

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

Finding 2007-011 (Continued)

Significant Deficiency – Board Members’ Insurance (Continued)

The District should implement monitoring controls to ensure that all board members receiving insurance through the District are billed correctly, and that the board members pay in advance for the full cost of the coverage as required by the Ohio Revised Code.

Client Response:

The District will seek reimbursement for the underpaid premiums from the board members involved, including using small claims court if needed. In the future, the District will adhere to Ohio Revised Code 9.901 if board members choose to purchase insurance through the District’s insurance plan(s).

Finding 2007-012

Significant Deficiency – Inventory

The District does not always properly tag purchased inventory items below the capitalization threshold or maintain an asset listing of inventory items. In particular, the District’s tool inventory is not tagged or regularly inventoried for physical existence. Not tagging tool and other asset inventory or maintaining a master listing, can result in missing items and does not provide adequate documentation of inventoried items should an insurance issue arise. The District should tag all tool and other asset inventory, establish and maintain a listing of these items, and periodically take a physical inventory.

Client Response:

The District will undertake a full inventory assessment during the summer of 2008.

Finding 2007-013

Significant Deficiency – Blanket Purchase Orders

Individual purchases made from blanket purchase orders are not reviewed or approved prior to the purchase being made. This could result in improper purchases and/or misappropriation of assets. In particular, it was noted that the District purchased significant amounts of supplies inventory items which were not reviewed or approved by authorized personnel. The District should establish appropriate monitoring controls in this area to ensure each purchase made from a blanket purchase order has been reviewed and approved by the appropriate personnel.

Client Response:

Blanket purchase orders will be reduced in amount and quantity. Individual purchases against a blanket p.o. will now require a requisition.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

WESTFALL LOCAL SCHOOL DISTRICT
Schedule of Prior Audit Findings
June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006.01	Reportable Condition – Inclusion of Bank Reconciliations in Monthly Financial Package to Board	Yes	Corrected
2006.02	Reportable Condition– Cancelled Check Image Review	No	Reissued as 2007-003
2006.03	Reportable Condition – Investigation of Missing Checks	No	Reissued as 2007-004



Mary Taylor, CPA
Auditor of State

WESTFALL LOCAL SCHOOL DISTRICT

PICKAWAY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 27, 2009**