

Western Local School District

Pike County, Ohio

Single Audit

July 1, 2003 Through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004



BALESTRA, HARR & SCHERER
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**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Western Local School District, Pike County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 3, 2005

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**Western Local School District
Pike County, Ohio**

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INDEPENDENT AUDITOR=S REPORT

Members of the Board
Western Local School District
7959 State Route 124
Latham, Ohio 45646

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Local School District (the School District), Pike County, as of and for the year ended June 30, 2004, which collectively comprise the School District=s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District=s management. Our responsibility is to express an opinion 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 basic 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

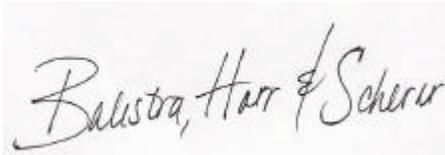
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes in financial position and cash flows; where applicable, thereof and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005, on our consideration of the School District=s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management=s Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District=s basic financial statements. The schedule of federal awards receipts and expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal awards receipt and 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.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

Balestra, Harr & Scherer CPAs, Inc.
February 10, 2005

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities increased \$5,365.
- General revenues accounted for \$5,449,752 in revenue or 64% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$3,049,464 or 36% of total revenues of \$8,499,216.
- The School District had \$8,493,851 in expenses related to governmental activities; only \$3,049,464 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$5,449,752 offset the remaining of the cost for these programs.
- The School District has two major funds; the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$6,109,976 in revenues and other financing sources and \$5,935,769 in expenditures and other financing uses. The General Fund's balance increased \$174,207. The Classroom Facilities Capital Projects Fund had \$9,628,162 in revenues and \$9,475,891 in expenditures. The Classroom Facilities Capital Projects Fund's balance increased by \$152,271.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Western Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$13,048,511	\$20,669,949
Capital Assets	19,121,668	10,644,713
Total Assets	<u>32,170,179</u>	<u>31,314,662</u>
Liabilities		
Long-term Liabilities	1,114,666	1,121,247
Other Liabilities	2,077,524	1,220,791
Total Liabilities	<u>3,192,190</u>	<u>2,342,038</u>
Net Assets		
Invested in Capital Assets, Net of Debt	18,326,668	9,824,713
Restricted	6,403,094	15,153,545
Unrestricted	4,248,227	3,994,366
Total Net Assets	<u>\$28,977,989</u>	<u>\$28,972,624</u>

Total net assets of the District as a whole increased \$5,365.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Western Local has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
	2004
Revenues	
Program Revenues	
Charges for Services and Sales	\$405,181
Operating Grants and Contributions	2,242,833
Capital Grants and Contributions	401,450
Total Program Revenues	3,049,464
General Revenues	
Property Taxes	765,813
Grants and Entitlements	4,520,752
Investment Earnings	136,294
Miscellaneous	26,893
Total General Revenues	5,449,752
Total Revenues	8,499,216
Program Expenses	
Instruction:	
Regular	2,886,380
Special	1,111,351
Vocational	76,351
Other	261,712
Support Services:	
Pupil	343,802
Instructional Staff	423,160
Board of Education	16,335
Administration	1,152,560
Fiscal	212,041
Operation and Maintenance of Plant	720,295
Pupil Transportation	608,690
Central	97,549
Operation of Non-Instructional Services	340,008
Extracurricular Activities	134,972
Intergovernmental	60,046
Interest and Fiscal Charges	48,599
Total Expenses	8,493,851
Increase in Net Assets	5,365
Net Assets, Beginning of Year	28,972,624
Net Assets, End of Year	\$ 28,977,989

Over the past several years, the School District has remained in good financial position. The School District has added several staff members to accommodate the additional instructional and support staff related programs. The combined salaries and benefits as well as supplies have increased the expenses. The expenses for the School District have increased but are offset by revenues and fund balances.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3		
Governmental Activities		
	Total Cost	Net Cost
	of Services	of Services
	2004	2004
Program Expenses		
Instruction:		
Regular	\$2,886,380	(\$2,390,280)
Special	1,111,351	(334,050)
Vocational	76,351	(72,744)
Other	261,712	(248,948)
Support Services:		
Pupil	343,802	(286,963)
Instructional Staff	423,160	(217,682)
Board of Education	16,335	(15,503)
Administration	1,152,560	(757,607)
Fiscal	212,041	(196,337)
Operation and Maintenance of Plant	720,295	(667,109)
Pupil Transportation	608,690	(200,336)
Central	97,549	(19,526)
Operation of Non-Instructional Services	340,008	75,733
Extracurricular Activities	134,972	(71,929)
Intergovernmental	60,046	(6,292)
Interest and Fiscal Charges	48,599	(34,814)
Total	\$8,493,851	(\$5,444,387)

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$17,864,600 and expenditures and other financing uses of \$17,221,945. The School District remains financially stable in terms of healthy carryovers and our ability to pay bills.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the School District amended its General Fund budget, but not significantly.

For the General Fund, budget basis revenue was \$6,095,134, above original estimates of \$5,453,643. Of this \$641,491 difference, most was due to receiving more in foundation monies. For the General Fund, appropriations were \$6,060,372, above original estimates of \$5,405,090. Of this \$655,282 difference, most was due to the increase in costs to complete the District's track project.

The School District's ending unobligated General Fund balance was \$4,188,545.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$19,121,668 invested in land and improvements, buildings and improvements, furniture and equipment, vehicles, library books and textbooks, infrastructure, and construction in progress. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4		
Capital Assets		
(Net of Depreciation)		
	Governmental Activities	
	2004	2003
Land and Land Improvements	\$803,150	\$930,265
Buildings and Improvements	7,734,491	7,936,361
Furniture and Equipment	1,132,189	1,269,317
Vehicles	485,209	434,976
Library Books and Textbooks	12,402	12,402
Infrastructure	59,404	61,392
Construction in Progress	8,894,823	0
Totals	\$19,121,668	\$10,644,713

Changes in capital assets from the prior year resulted from additions, disposals and depreciation. The addition of a new elementary school attributes the most significant change in assets.

Western Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the School District had general obligation bonds outstanding of \$795,000. The bonds were issued for school construction. For additional information on debt, see Note 14 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Western Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,389,171
Accounts Receivable	13,459
Accrued Interest Receivable	66
Intergovernmental Receivable	1,211,864
Property Taxes Receivable	1,346,331
Restricted Assets:	
Cash and Cash Equivalents with Escrow Agents	87,620
Nondepreciable Capital Assets	9,231,456
Depreciable Capital Assets, Net	9,890,212
<i>Total Assets</i>	32,170,179
Liabilities	
Accounts Payable	670,875
Accrued Wages and Benefits Payable	514,216
Retainage Payable	87,620
Claims Payable	4,690
Deferred Revenue	589,726
Intergovernmental Payable	210,397
Long-Term Liabilities:	
Due Within One Year	69,925
Due In More Than One Year	1,044,741
<i>Total Liabilities</i>	3,192,190
Net Assets	
Invested in Capital Assets, Net of Related Debt	18,326,668
Restricted for:	
Capital Projects	5,922,684
Debt Service	332,785
Other Purposes	147,625
Unrestricted	4,248,227
<i>Total Net Assets</i>	\$28,977,989

See accompanying notes to the basic financial statements

Western Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$2,886,380	\$101,645	\$394,054	\$401	(\$2,390,280)
Special	1,111,351	28,919	748,382	0	(334,050)
Vocational	76,351	3,607	0	0	(72,744)
Other	261,712	12,764	0	0	(248,948)
Support Services:					
Pupil	343,802	14,281	42,558	0	(286,963)
Instructional Staff	423,160	10,027	195,451	0	(217,682)
Board of Education	16,335	832	0	0	(15,503)
Administration	1,152,560	25,543	4,893	364,517	(757,607)
Fiscal	212,041	9,989	5,715	0	(196,337)
Operation and Maintenance of Plant	720,295	35,848	17,338	0	(667,109)
Pupil Transportation	608,690	32,188	376,166	0	(200,336)
Central	97,549	789	77,234	0	(19,526)
Operation of Non-Instructional Services	340,008	89,186	290,023	36,532	75,733
Extracurricular Activities	134,972	39,400	23,643	0	(71,929)
Intergovernmental	60,046	163	53,591	0	(6,292)
Interest and Fiscal Charges	48,599	0	13,785	0	(34,814)
Totals	\$8,493,851	\$405,181	\$2,242,833	\$401,450	(5,444,387)
General Revenues					
Property Taxes Levied for:					
General Purposes					637,441
Debt Service					113,814
Classroom Facilities Maintenance					14,558
Grants and Entitlements not Restricted to Specific Programs					4,520,752
Investment Earnings					136,294
Miscellaneous					26,893
Total General Revenues					5,449,752
<i>Change in Net Assets</i>					5,365
<i>Net Assets Beginning of Year - As Restated, See Note 3</i>					28,972,624
<i>Net Assets End of Year</i>					28,977,989

See accompanying notes to the basic financial statements

Western Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,355,599	\$5,248,086	\$758,895	\$10,362,580
Receivables:				
Property Taxes	1,119,928	0	226,403	1,346,331
Accounts	13,459	0	0	13,459
Accrued Interest	66	0	0	66
Interfund	8,663	0	0	8,663
Intergovernmental	9,653	1,119,855	82,356	1,211,864
Restricted Assets:				
Cash and Cash Equivalents with Escrow Agents	0	87,620	0	87,620
<i>Total Assets</i>	<u>\$5,507,368</u>	<u>\$6,455,561</u>	<u>\$1,067,654</u>	<u>\$13,030,583</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$20,967	\$646,299	\$3,609	\$670,875
Accrued Wages and Benefits Payable	371,938	0	142,278	514,216
Interfund Payable	0	0	8,663	8,663
Retainage Payable	0	87,620	0	87,620
Intergovernmental Payable	70,618	0	27,258	97,876
Deferred Revenue	1,056,830	1,119,855	247,043	2,423,728
<i>Total Liabilities</i>	<u>1,520,353</u>	<u>1,853,774</u>	<u>428,851</u>	<u>3,802,978</u>
Fund Balances				
Reserved for Encumbrances	146,400	2,837,270	16,270	2,999,940
Reserved for Property Taxes	63,098	0	12,666	75,764
Unreserved, Undesignated, Reported in:				
General Fund	3,777,517	0	0	3,777,517
Special Revenue Funds	0	0	188,914	188,914
Debt Service Funds	0	0	219,911	219,911
Capital Projects Funds	0	1,764,517	201,042	1,965,559
<i>Total Fund Balances</i>	<u>3,987,015</u>	<u>4,601,787</u>	<u>638,803</u>	<u>9,227,605</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,507,368</u>	<u>\$6,455,561</u>	<u>\$1,067,654</u>	<u>\$13,030,583</u>

See accompanying notes to the basic financial statements

Western Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances \$ 9,227,605

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 19,121,668

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

Taxes	680,841	
Intergovernmental	1,153,161	
	1,153,161	

Total		1,834,002
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Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds (112,521)

An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets 21,901

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

Compensated Absences	(319,666)	
General Obligation Bonds	(795,000)	
	(795,000)	

Total		(1,114,666)
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Net Assets of Governmental Activities \$ 28,977,989

See accompanying notes to the basic financial statements

Western Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$547,913	\$0	\$110,146	\$658,059
Intergovernmental	5,172,437	9,581,100	1,596,923	16,350,460
Investment Earnings	88,262	47,062	970	136,294
Charges for Services	25,007	0	88,306	113,313
Tuition and Fees	252,477	0	4,780	257,257
Extracurricular Activities	0	0	34,611	34,611
Gifts and Donations	1,594	0	2,000	3,594
Miscellaneous	19,573	0	3,726	23,299
<i>Total Revenues</i>	<u>6,107,263</u>	<u>9,628,162</u>	<u>1,841,462</u>	<u>17,576,887</u>
Expenditures				
Current:				
Instruction:				
Regular	2,065,613	0	447,192	2,512,805
Special	549,758	0	514,408	1,064,166
Vocational	76,411	0	0	76,411
Other	261,667	0	0	261,667
Support Services:				
Pupil	289,340	0	45,342	334,682
Instructional Staff	191,559	0	213,708	405,267
Board of Education	16,244	0	0	16,244
Administration	530,601	616,363	5,549	1,152,513
Fiscal	197,196	0	4,247	201,443
Operation and Maintenance of Plant	647,399	61,531	19,572	728,502
Pupil Transportation	634,726	0	0	634,726
Central	8,958	0	86,607	95,565
Operation of Non-Instructional Services	294	0	313,880	314,174
Extracurricular Activities	94,607	0	26,135	120,742
Intergovernmental	0	0	60,046	60,046
Capital Outlay	86,396	8,797,997	0	8,884,393
Debt Service:				
Principal	0	0	25,000	25,000
Interest and Fiscal Charges	0	0	48,599	48,599
<i>Total Expenditures</i>	<u>5,650,769</u>	<u>9,475,891</u>	<u>1,810,285</u>	<u>16,936,945</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>456,494</u>	<u>152,271</u>	<u>31,177</u>	<u>639,942</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets	2,713	0	0	2,713
Operating Transfers In	0	0	285,000	285,000
Operating Transfers Out	(285,000)	0	0	(285,000)
<i>Total Other Financing Sources</i>	<u>(282,287)</u>	<u>0</u>	<u>285,000</u>	<u>2,713</u>
<i>Net Change in Fund Balance</i>	174,207	152,271	316,177	642,655
<i>Fund Balances Beginning of Year - As Restated, See Note 3</i>	<u>3,812,808</u>	<u>4,449,516</u>	<u>322,626</u>	<u>8,584,950</u>
<i>Fund Balances End of Year</i>	<u>\$3,987,015</u>	<u>\$4,601,787</u>	<u>\$638,803</u>	<u>\$9,227,605</u>

See accompanying notes to the basic financial statements

Western Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$ 642,655

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

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

Capital Asset Additions	9,064,050	
Current Year Depreciation	(581,768)	
Total	8,482,282	8,482,282

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

Proceeds from Sale of Capital Assets	(2,713)	
Loss on Disposal of Capital Assets	(2,614)	
Total	(5,327)	(5,327)

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

Taxes	107,754	
Intergovernmental	(9,185,424)	
Total	(9,077,670)	(9,077,670)

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

25,000

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

6,209

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

Increase in Compensated Absences	(18,419)	
Increase in Intergovernmental Payable	(49,365)	

Total	(67,784)	(67,784)
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Net Change in Net Assets of Governmental Activities \$ 5,365

See accompanying notes to the basic financial statements

Western Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
(Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget: Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Revenues and Other Sources	\$ 5,453,643	\$ 6,145,131	\$ 6,095,134	\$ (49,997)
Total Expenditures and Other Uses	5,405,090	6,111,068	6,060,372	50,696
Net Change in Fund Balance	48,553	34,063	34,762	699
Fund Balance, July 1, 2003	3,922,078	3,922,078	3,922,078	-
Prior Year Encumbrances Appropriated	231,705	231,705	231,705	-
Fund Balance, June 30, 2004	<u>\$ 4,202,336</u>	<u>\$ 4,187,846</u>	<u>\$ 4,188,545</u>	<u>\$ 699</u>

See accompanying notes to the basic financial statements

Western Local School District
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
as of June 30, 2004

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$26,591</u>
<i>Total Assets</i>	<u><u>26,591</u></u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>4,690</u>
<i>Total Liabilities</i>	<u>4,690</u>
NET ASSETS:	
Unrestricted	<u><u>\$21,901</u></u>

See accompanying notes to the basic financial statements

Western Local School District
*Statement of Revenues, Expenses and
Changes In Fund Net Assets*
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2004

Operating Revenues:	
Charges for Services	<u>\$60,719</u>
<i>Total Operating Revenue</i>	<u>60,719</u>
Operating Expenses:	
Purchased Services	4,627
Claims Expense	<u>49,883</u>
<i>Total Operating Expenses</i>	<u>54,510</u>
Change in Net Assets	6,209
Net Assets at Beginning of Year	<u>15,692</u>
Net Assets at End of Year	<u><u>\$21,901</u></u>

See accompanying notes to the basic financial statements

Western Local School District
Statement of Cashflows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Transaction with Other Funds	\$60,719
Cash Payments to Suppliers for Services	(4,627)
Cash Payments for Claims	<u>(50,936)</u>

Net Cash Provided for Operating Activities 5,156

Cash and Cash Equivalents at Beginning of Year 21,435

Cash and Cash Equivalents at End of Year \$26,591

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

Operating Income \$6,209

Changes in Assets and Liabilities:

Decrease in Claims Payable (1,053)

Net Cash Provided by Operating Activities \$5,156

See accompanying notes to the basic financial statements

Western Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$20,245</u>
Total Assets	<u><u>20,245</u></u>
Liabilities	
Undistributed Monies	<u>20,245</u>
Total Liabilities	<u><u>\$20,245</u></u>

See accompanying notes to the basic financial statements

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1934 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 87 square miles. It is located in Pike County and includes Benton, Mifflin, Pebble, Perry, and Sunfish Townships. The School District is the 521st largest in the State of Ohio (among 611 school districts). It is staffed by 41 non-certificated employees and 67 certificated full-time teaching personnel who provide services to 913 students and other community members.

Reporting Entity:

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

B. Fund Accounting

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

Governmental Funds

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund

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

Classroom Facilities Fund

The Classroom Facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Proprietary Funds

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

Internal Service Fund

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's only agency funds are funds used to account for student-managed activities.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Basis of Accounting

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

Revenues-Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

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

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

D. Cash and Cash Equivalents

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited during fiscal year 2004 amounted to \$88,262 to the General Fund, \$47,062 to the Classroom Facilities Major Fund and \$970 to the other Non-Major governmental funds.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

E. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. During fiscal year 2004, the School District held monies for the construction of new school buildings. Retainage amounts at June 30, 2004 have been restricted and are presented as "Cash & Cash Equivalents with Escrow Agents" on the balance sheet.

F. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. It is the School District's policy to capitalize interest incurred during construction.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 50 years for buildings, 5 years for land improvements, 20 years for building improvements, 6 to 15 years for furniture and equipment, 5 to 10 years for vehicles, library books and textbooks and 50 years for infrastructure which consists of a sewer plant and sewer lines.

G. Interfund Activity

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

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Fund Balance Reserves

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

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

K. Estimates

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements.

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information by major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units.” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government.

The implementation of the Statements requires certain adjustments be recorded to the June 30, 2003, fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Classroom Facilities	Non-Major	Total
Fund Balances, June 30, 2003	\$3,811,202	\$4,449,516	\$336,772	\$8,597,490
Fund Reclassification:				
Enterprise Fund Balances, June 30, 2003	0	0	105,519	105,519
Adjustments	(6,688)	0	(119,934)	(126,622)
Interpretation 6	8,294	0	269	8,563
Restated Fund Balances, June 30, 2003	\$3,812,808	\$4,449,516	\$322,626	\$8,584,950
Adjustments to Comply with GASB 34:				
Capital Assets				10,644,713
Debt				(820,000)
Compensated Absences				(301,247)
Intergovernmental Payables				(63,156)
Deferred Revenue				10,911,272
Internal Service Fund				15,692
Governmental Activities Net Assets June 30, 2003				\$28,972,624

	Enterprise
Balance, June 30, 2003	\$105,519
Fund Reclassification Restatement	(105,519)
Restated Balance, June 30, 2003	\$0

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - ACCOUNTABILITY

At June 30, 2004, the Title I and Title VI Funds had deficit fund balances of \$15,532, and \$396, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

	Net Change in Fund Balance
	<u>General</u>
GAAP Basis	\$174,207
Revenue Accruals	(14,842)
Expenditure Accruals	42,457
Encumbrances	<u>(167,060)</u>
Budget Basis	<u><u>\$34,762</u></u>

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the 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.

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' 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 the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$6,419,149 and the bank balance was \$6,529,628. Of the bank balance, \$100,000 was covered by federal depository insurance and \$6,429,628 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

	Fair Value
STAR Ohio	\$4,077,887

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$10,497,036	\$0
Investment:		
STAR Ohio	(4,077,887)	4,077,887
<i>GASB Statement No. 3</i>	\$6,419,149	\$4,077,887

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2004 real property taxes are collected in and intended to finance fiscal year 2005.

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

2004 tangible personal property taxes are levied after April 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

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

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

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$24,390,260	87.02%	\$27,671,730	86.68%
Public Utility	2,335,040	8.33%	3,198,450	10.02%
Tangible Personal Property	1,302,133	4.65%	1,052,230	3.30%
Total Assessed Value	<u>\$28,027,433</u>	<u>100.00%</u>	<u>\$31,922,410</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.15		\$33.10	

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2004, was \$63,098 in the General Fund, \$12,666 in the Non-Major funds.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, interest, tuition and fees, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Major Funds:	
General Fund	\$9,653
Classroom Facilities	1,119,855
 Non-Major Funds:	
Summer School	30,342
Title VI-B	18,708
Title I	32,911
Title VI	<u>395</u>
Total Non-Major Funds	<u>82,356</u>
 Total All Funds	 <u>\$1,211,864</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Harcum-Hyre Insurance for property and fleet insurance, liability insurance, and inland marine coverage. Lorbach Insurance Agency provides public official bonds. Total coverage amounted to \$25,778,600 with a \$1,000 deductible.

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement 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 firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - RISK MANAGEMENT (continued)

Dental insurance is offered to employees through a self-insurance internal service fund. Coresource is the School District's third party administrator who informs the District of claim payments needed each week. Dominguez Consulting provides an actuarial study each year and advises the District as to any change needed in premium payments to the internal service fund. The claims liability of \$4,690 reported in the internal service fund at June 30, 2004 is based on an estimate provided by Coresource and the requirements of GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past three fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2002	\$4,512	\$47,560	\$47,907	\$4,165
2003	4,165	53,394	51,816	5,743
2004	5,743	49,883	50,936	4,690

NOTE 10 - FIXED ASSETS

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

	Ending Balance 6/30/03	Additions	Deletions	Ending Balance 6/30/04
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$336,633	\$0	\$0	\$336,633
Construction in Progress	0	8,894,823	0	8,894,823
Total Capital Assets, Not Being Depreciated	336,633	8,894,823	0	9,231,456
Capital Assets Being Depreciated				
Land Improvements	1,435,889	0	0	1,435,889
Buildings and Improvements	10,870,332	0	0	10,870,332
Furniture and Equipment	2,738,416	50,967	(81,435)	2,707,948
Vehicles	955,790	118,260	(79,221)	994,829
Library Books and Textbooks	465,568	0	0	465,568
Infrastructure	102,376	0	0	102,376
Total Capital Assets, Being Depreciated	16,568,371	169,227	(160,656)	16,576,942
Less Accumulated Depreciation:				
Land Improvements	(842,257)	(127,115)	0	(969,372)
Building and Improvements	(2,933,971)	(201,870)	0	(3,135,841)
Furniture and Equipment	(1,469,099)	(182,768)	76,108	(1,575,759)
Vehicles	(520,814)	(68,027)	79,221	(509,620)
Library Books and Textbooks	(453,166)	0	0	(453,166)
Infrastructure	(40,984)	(1,988)	0	(42,972)
Total Accumulated Depreciation	(6,260,291)	(581,768)	155,329	(6,686,730)
Total Capital Assets Being Depreciated, Net	10,308,080	(412,541)	(5,327)	9,890,212
Governmental Activities Capital Assets, Net	\$10,644,713	\$8,482,282	(\$5,327)	\$19,121,668

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - FIXED ASSETS (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$430,053
Special	10,265
Other	45
Support Services:	
Pupils	6,667
Instructional Staff	9,021
Board of Education	46
Administration	11,251
Fiscal	3,381
Operation and Maintenance of Plant	15,612
Pupil Transportation	68,993
Central	1,651
Non-Instructional Services	11,452
Extracurricular Activities	13,331
Total Depreciation Expense	\$581,768

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2004, 9.09% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$145,824, \$130,512, and \$125,784, respectively. 41% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$85,546 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

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

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

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

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

Benefits are increased annually by 3% of the original base amount.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

Plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$395,638, \$432,300, and \$425,664; 84% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$64,944 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$30,663 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$109,181.

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.6 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Insurance Benefits

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

C. Deferred Compensation

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

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Due In One Year
1995 School Improvement General Obligation Bonds - 4.05% to 6.35%	\$820,000	\$0	\$25,000	\$795,000	\$30,000
Compensated Absences	301,247	319,666	301,247	319,666	39,925
Total General Long-Term Obligations	\$1,121,247	\$319,666	\$326,247	\$1,114,666	\$69,925

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

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

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

The School District's overall legal debt margin was \$2,078,017 with an unvoted debt margin of \$31,922 at June 30, 2004.

Principal and interest requirements to retire general obligation debt at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$30,000	\$47,250	\$77,250
2006	30,000	45,750	75,750
2007	35,000	44,021	79,021
2008	40,000	41,940	81,940
2009	40,000	39,720	79,720
2010-2014	280,000	155,430	435,430
Thereafter	340,000	45,403	385,403
Total	\$795,000	\$419,514	\$1,214,514

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the participating counties, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$69,860 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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

NOTE 16 - INSURANCE PURCHASING POOL

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

NOTE 17 - SCHOOL FUNDING COURT DECISION

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

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

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

NOTE 18 - CONTINGENCIES

Grants

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

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	\$0	\$0
Current year set-aside requirement	121,342	121,342
Current year offsets and Pr. Yr. Carry Over	(190,764)	(106,987)
Qualifying disbursements	(139,941)	(164,122)
Amount Carried Forward to FY 2005	(\$209,363)	(\$149,767)
Reserve Balance as of June 30, 2004	\$0	\$0

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

NOTE – 20 CONTRACT COMMITMENTS

As of June 30, 2004, the School District had contractual commitments for the construction of a new elementary school as follows:

Vendor	Contract Amount	Amount Paid as of 06/30/04	Remaining Amount
Crace Construction	\$186,740	\$0	\$186,740
Farnham Equipment	276,500	0	276,500
Hattenbach Company	152,900	22,119	130,781
Mechanical Construction	2,628,710	2,180,977	477,733
Monarch Construction	5,857,599	4,889,010	968,589
Sidewinder Electric	1,423,525	784,119	639,406
TP Mechanical	125,980	101,234	24,746
Tanner and Stone	920,623	820,167	100,456
Continental Educational Environment	215,629	0	215,629
Shawnee Forestry Products	277,000	0	277,000
Foill, Inc.	267,984	0	267,984
Totals	\$12,333,190	\$8,797,626	\$3,565,564

Western Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

	Transfer From	Transfer To
Major Fund:		
General	\$285,000	\$0
Non Major Funds:		
Permanent Improvement	0	125,000
Athletic	0	7,500
EMIS	0	85,000
Food Service		67,500
Total	\$285,000	\$285,000

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

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2005 fiscal year:

	Receivable	Payable
Major Fund:		
General	\$8,663	\$0
Non-Major Funds:		
Title VI-B		8,284
Title V		379
Total	\$8,663	\$8,663

During the year, the District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Western Local School District
Pike County

Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	NA	10.550	\$ -	\$ 45,135	\$ -	\$ 45,135
National School Breakfast Program	05PU	10.553	53,175	-	53,175	-
National School Lunch Program	LLP4	10.555	151,905	-	151,905	-
Total United States Department of Agriculture - Nutrition Cluster			<u>205,080</u>	<u>45,135</u>	<u>205,080</u>	<u>45,135</u>
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Title VI-B	6BSF	84.027	137,945	-	151,538	-
Total Special Education Cluster			<u>137,945</u>	<u>-</u>	<u>151,538</u>	<u>-</u>
Title I	CIS1	84.010	509,357	-	506,662	-
Drug Free Education	DRS1	84.186	5,601	-	4,846	-
Innovative Education Program Strategy	C2S1	84.298	9,097	-	10,428	-
Education Technology State Grant	TJS1	84.318	15,469	-	12,553	-
Rural Education	RUS1	84.358	16,145	-	13,699	-
Improving Teacher Quality State Grant	TRS1	84.367	87,655	-	80,838	-
<i>Passed through Ohio Scioto County JVS</i>						
21st Century Grant	NA	84.287	25,007	-	25,007	-
Total United States Department of Education			<u>806,276</u>	<u>-</u>	<u>805,571</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 1,011,356</u>	<u>\$ 45,135</u>	<u>\$ 1,010,651</u>	<u>\$ 45,135</u>

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

Western Local School District
Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures 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 DISTRIBUTIONS

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS
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Ohio Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Western Local School District
7959 State Route 124
Latham, Ohio 45646

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Local School District (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District=s basic financial statements, and have issued our report thereon dated February 10, 2005, in which we indicated the School District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, 39, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

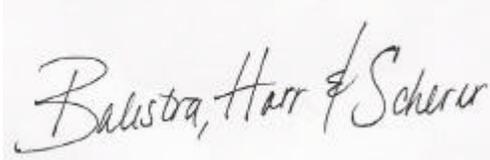
In planning and performing our audit, we considered the School District=s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District=s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance, which we have reported to management in a separate letter dated February 10, 2005.

Members of the Board
Western Local School District
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*
Page 2

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

A handwritten signature in black ink that reads "Balestra, Harr & Scherer". The signature is written in a cursive, flowing style.

Balestra, Harr & Scherer CPAs, Inc.
February 10, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board
Western Local School District
7959 State Route 124
Latham, Ohio 45646

Compliance

We have audited the compliance of Western Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The School 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 School District=s management. Our responsibility is to express an opinion on the School District=s compliance based on our audit.

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

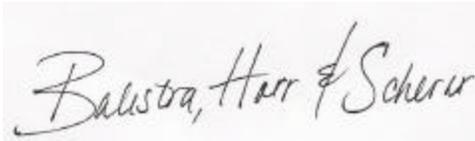
In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Balestra, Harr & Scherer CPAs, Inc.
February 10, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

WESTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY
JUNE 30, 2004

1. SUMMARY OF AUDITOR=S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	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):	CFDA # 84.010, Title I
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

WESTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY
JUNE 30, 2004

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

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
Betty Montgomery**

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WESTERN LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 26, 2005**