

**WESTERN RESERVE  
LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

***GENERAL PURPOSE FINANCIAL STATEMENTS  
(AUDITED)***

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003*

**DIANE WOLF, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Education  
Western Reserve Local School District  
3765 U.S. Route 20 East  
Collins, Ohio 44826

We have reviewed the Independent Auditor's Report of the Western Reserve Local School District, Huron County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2002 through June 30, 2003. 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 Reserve Local School District is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 20, 2004

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

Board of Education  
Western Reserve Local School District  
3765 U.S. Route 20 East  
Collins, Ohio 44826

We have audited the accompanying general purpose financial statements of the Western Reserve Local School District, Huron County, (the “District”) as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the District’s management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Western Reserve Local School District, Huron County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the fiscal 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 December 15, 2003, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Trimble, Julian & Grube, Inc.  
December 15, 2003

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2003**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>				
<b>ASSETS:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 1,236,331	\$ 321,857	\$ 204,979	\$ 1,445,520
Equity in pooled cash and cash equivalents - nonexpendable trust fund . . . . .	-	-	-	-
Receivables (net of allowances of uncollectibles):				
Taxes - current & delinquent . . . . .	2,294,140	42,107	253,214	-
Accounts . . . . .	188	1,532	-	-
Advances to other funds. . . . .	29,315	-	-	-
Due from other governments . . . . .	-	11,273	-	-
Materials and supplies inventory . . . . .	-	-	-	-
Prepayments . . . . .	47,399	-	-	1,250
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	62,547	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable). . . . .	-	-	-	-
<b>OTHER DEBITS:</b>				
Amount available in debt service fund . . . . .	-	-	-	-
Amount to be provided for retirement of general long-term obligations . . . . .	-	-	-	-
<b>Total assets and other debits . . . . .</b>	<b>\$ 3,669,920</b>	<b>\$ 376,769</b>	<b>\$ 458,193</b>	<b>\$ 1,446,770</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
<b>LIABILITIES:</b>				
Accounts payable . . . . .	\$ 264,187	\$ 25,969	\$ -	\$ 46,007
Contracts payable. . . . .	-	-	-	110,796
Accrued wages and benefits. . . . .	857,129	8,790	-	-
Compensated absences payable. . . . .	39,509	-	-	-
Pension obligation payable . . . . .	134,961	-	-	-
Advances from other funds . . . . .	-	5,800	-	-
Deferred revenue . . . . .	1,596,166	44,533	224,252	-
Due to other governments. . . . .	86,165	3,434	-	-
Due to students . . . . .	-	-	-	-
General obligation bonds payable. . . . .	-	-	-	-
Obligation under capital leases . . . . .	-	-	-	-
Energy conservation bonds payable . . . . .	-	-	-	-
<b>Total liabilities. . . . .</b>	<b>2,978,117</b>	<b>88,526</b>	<b>224,252</b>	<b>156,803</b>
<b>EQUITY AND OTHER CREDITS:</b>				
Investment in general fixed assets . . . . .	-	-	-	-
Retained earnings: unreserved . . . . .	-	-	-	-
Fund balances (deficit):				
Reserved for encumbrances . . . . .	121,273	-	-	196,445
Reserved for prepayments . . . . .	47,399	-	-	1,250
Reserved for debt service . . . . .	-	-	204,979	-
Reserved for tax revenue unavailable for appropriation. . . . .	198,117	4,815	28,962	-
Reserved for principal endowment . . . . .	-	-	-	-
Reserved for BWC refunds . . . . .	19,552	-	-	-
Reserved for bus purchase allowance . . . . .	42,995	-	-	-
Reserved for advances . . . . .	29,315	-	-	-
Reserved for scholarships . . . . .	-	-	-	-
Unreserved:				
Designated for budget stabilization . . . . .	305,448	-	-	-
Undesignated . . . . .	(72,296)	283,428	-	1,092,272
<b>Total equity and other credits . . . . .</b>	<b>691,803</b>	<b>288,243</b>	<b>233,941</b>	<b>1,289,967</b>
<b>Total liabilities, equity and other credits. . . . .</b>	<b>\$ 3,669,920</b>	<b>\$ 376,769</b>	<b>\$ 458,193</b>	<b>\$ 1,446,770</b>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$ 10,755	\$ 85,700	\$ -	\$ -	\$ 3,305,142
-	71,038	-	-	71,038
-	-	-	-	2,589,461
67	-	-	-	1,787
-	-	-	-	29,315
-	-	-	-	11,273
5,076	-	-	-	5,076
-	-	-	-	48,649
-	-	-	-	62,547
349,781	-	20,679,518	-	21,029,299
-	-	-	233,941	233,941
-	-	-	3,843,975	3,843,975
<u>\$ 365,679</u>	<u>\$ 156,738</u>	<u>\$ 20,679,518</u>	<u>\$ 4,077,916</u>	<u>\$ 31,231,503</u>
\$ 2,024	\$ 1,100	\$ -	\$ -	\$ 339,287
-	-	-	-	110,796
25,350	-	-	-	891,269
2,486	-	-	513,266	555,261
11,167	-	-	69,598	215,726
23,515	-	-	-	29,315
-	-	-	-	1,864,951
874	-	-	-	90,473
-	85,698	-	-	85,698
-	-	-	3,268,590	3,268,590
-	-	-	49,762	49,762
-	-	-	176,700	176,700
<u>65,416</u>	<u>86,798</u>	<u>-</u>	<u>4,077,916</u>	<u>7,677,828</u>
-	-	20,679,518	-	20,679,518
300,263	-	-	-	300,263
-	-	-	-	317,718
-	-	-	-	48,649
-	-	-	-	204,979
-	-	-	-	231,894
-	41,468	-	-	41,468
-	-	-	-	19,552
-	-	-	-	42,995
-	-	-	-	29,315
-	28,470	-	-	28,470
-	-	-	-	305,448
-	2	-	-	1,303,406
<u>300,263</u>	<u>69,940</u>	<u>20,679,518</u>	<u>-</u>	<u>23,553,675</u>
<u>\$ 365,679</u>	<u>\$ 156,738</u>	<u>\$ 20,679,518</u>	<u>\$ 4,077,916</u>	<u>\$ 31,231,503</u>

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Revenues:</b>						
From local sources:						
Taxes . . . . .	\$ 3,360,613	\$ 46,885	\$ 311,674	\$ -	\$ -	\$ 3,719,172
Earnings on investments . . . . .	5,645	-	-	107,623	-	113,268
Extracurricular . . . . .	749	212,359	-	-	-	213,108
Other local revenues . . . . .	60,451	160	-	13,980	-	74,591
Intergovernmental - State . . . . .	6,000,490	103,121	30,546	769,174	-	6,903,331
Intergovernmental - Federal . . . . .	-	370,666	-	-	-	370,666
<b>Total revenues . . . . .</b>	<u>9,427,948</u>	<u>733,191</u>	<u>342,220</u>	<u>890,777</u>	<u>-</u>	<u>11,394,136</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular . . . . .	4,065,000	163,115	-	72,482	-	4,300,597
Special . . . . .	1,117,326	257,227	-	-	-	1,374,553
Vocational . . . . .	165,180	5,611	-	-	-	170,791
Other . . . . .	98,950	-	-	-	-	98,950
Support services:						
Pupil . . . . .	279,805	3,607	-	-	-	283,412
Instructional staff . . . . .	561,698	8,453	-	-	-	570,151
Board of Education . . . . .	51,832	-	-	-	-	51,832
Administration . . . . .	786,951	-	-	-	-	786,951
Fiscal . . . . .	481,165	-	-	-	-	481,165
Business . . . . .	150	-	-	-	-	150
Operations and maintenance . . . . .	947,450	8,743	-	778	-	956,971
Pupil transportation . . . . .	555,027	-	-	-	-	555,027
Extracurricular activities . . . . .	151,611	211,011	-	-	-	362,622
Facilities acquisition and construction . . . . .	-	-	-	7,400,233	-	7,400,233
Debt service:						
Principal retirement . . . . .	13,983	-	187,800	-	-	201,783
Interest and fiscal charges . . . . .	4,406	989	225,558	-	-	230,953
<b>Total expenditures . . . . .</b>	<u>9,280,534</u>	<u>658,756</u>	<u>413,358</u>	<u>7,473,493</u>	<u>-</u>	<u>17,826,141</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>147,414</u>	<u>74,435</u>	<u>(71,138)</u>	<u>(6,582,716)</u>	<u>-</u>	<u>(6,432,005)</u>
Other financing sources:						
Proceeds from sale of fixed assets . . . . .	-	-	-	56,724	-	56,724
<b>Total other financing sources . . . . .</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,724</u>	<u>-</u>	<u>56,724</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures . . . . .	<u>147,414</u>	<u>74,435</u>	<u>(71,138)</u>	<u>(6,525,992)</u>	<u>-</u>	<u>(6,375,281)</u>
Fund balances, July 1 . . . . .	<u>544,389</u>	<u>213,808</u>	<u>305,079</u>	<u>7,815,959</u>	<u>2</u>	<u>8,879,237</u>
Fund balances, June 30 . . . . .	<u>\$ 691,803</u>	<u>\$ 288,243</u>	<u>\$ 233,941</u>	<u>\$ 1,289,967</u>	<u>\$ 2</u>	<u>\$ 2,503,956</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
From local sources:						
Taxes . . . . .	\$ 2,895,575	\$ 3,172,707	\$ 277,132	\$ 48,799	\$ 42,144	\$ (6,655)
Earnings on investments . . . . .	5,152	5,645	493	-	-	-
Extracurricular . . . . .	684	749	65	243,941	210,675	(33,266)
Other local revenues . . . . .	55,521	60,835	5,314	-	-	-
Intergovernmental - State . . . . .	5,476,355	6,000,490	524,135	126,786	109,496	(17,290)
Intergovernmental - Federal . . . . .	-	-	-	424,333	367,483	(56,850)
Total revenues . . . . .	8,433,287	9,240,426	807,139	843,859	729,798	(114,061)
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular . . . . .	4,358,122	3,970,804	387,318	225,015	171,095	53,920
Special . . . . .	1,120,880	1,052,881	67,999	322,148	258,277	63,871
Vocational . . . . .	172,436	154,976	17,460	8,318	8,316	2
Other . . . . .	119,027	95,190	23,837	-	-	-
Support services:						
Pupil . . . . .	301,050	265,412	35,638	-	-	-
Instructional staff . . . . .	564,615	534,748	29,867	4,572	4,572	-
Board of Education . . . . .	34,670	82,278	(47,608)	-	-	-
Administration . . . . .	754,657	751,392	3,265	-	-	-
Fiscal . . . . .	332,054	415,325	(83,271)	-	-	-
Business . . . . .	300	150	150	-	-	-
Operations and maintenance . . . . .	885,470	915,657	(30,187)	110,390	9,271	101,119
Pupil transportation . . . . .	613,435	659,395	(45,960)	-	-	-
Extracurricular activities . . . . .	156,000	150,435	5,565	210,336	204,809	5,527
Facilities acquisition and construction . . . . .	-	-	-	-	-	-
Debt service:						
Principal retirement . . . . .	-	-	-	-	-	-
Interest and fiscal charges . . . . .	-	-	-	-	-	-
Total expenditures . . . . .	9,412,716	9,048,643	364,073	880,779	656,340	224,439
Excess (deficiency) of revenues over (under) expenditures . . . . .	(979,429)	191,783	1,171,212	(36,920)	73,458	110,378
<b>Other financing sources:</b>						
Proceeds from sale of fixed assets . . . . .	-	-	-	-	-	-
Refund of prior year expenditures . . . . .	66,713	73,100	6,387	-	-	-
Total other financing sources . . . . .	66,713	73,100	6,387	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures . . . . .	(912,716)	264,883	1,177,599	(36,920)	73,458	110,378
Fund balances, July 1 . . . . .	884,606	884,606	-	232,732	232,732	-
Prior year encumbrances appropriated . . . . .	28,116	28,116	-	15,667	15,667	-
Fund balances, June 30 . . . . .	\$ 6	\$ 1,177,605	\$ 1,177,599	\$ 211,479	\$ 321,857	\$ 110,378

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ 267,254	\$ 283,158	\$ 15,904	\$ -	\$ -	\$ -	\$ 3,211,628	\$ 3,498,009	\$ 286,381
-	-	-	40,098	114,347	74,249	45,250	119,992	74,742
-	-	-	-	-	-	244,625	211,424	(33,201)
-	-	-	83,258	13,980	(69,278)	138,779	74,815	(63,964)
32,246	30,546	(1,700)	4,580,824	769,174	(3,811,650)	10,216,211	6,909,706	(3,306,505)
-	-	-	-	-	-	424,333	367,483	(56,850)
<u>299,500</u>	<u>313,704</u>	<u>14,204</u>	<u>4,704,180</u>	<u>897,501</u>	<u>(3,806,679)</u>	<u>14,280,826</u>	<u>11,181,429</u>	<u>(3,099,397)</u>
-	-	-	96,372	75,982	20,390	4,679,509	4,217,881	461,628
-	-	-	-	-	-	1,443,028	1,311,158	131,870
-	-	-	-	-	-	180,754	163,292	17,462
-	-	-	-	-	-	119,027	95,190	23,837
-	-	-	-	-	-	301,050	265,412	35,638
-	-	-	-	-	-	569,187	539,320	29,867
-	-	-	-	-	-	34,670	82,278	(47,608)
-	-	-	-	-	-	754,657	751,392	3,265
-	-	-	-	-	-	332,054	415,325	(83,271)
-	-	-	-	-	-	300	150	150
-	-	-	853,791	17,581	836,210	1,849,651	942,509	907,142
-	-	-	-	-	-	613,435	659,395	(45,960)
-	-	-	-	-	-	366,336	355,244	11,092
-	-	-	12,655,003	8,494,291	4,160,712	12,655,003	8,494,291	4,160,712
187,800	187,800	-	-	-	-	187,800	187,800	-
390,800	225,558	165,242	-	-	-	390,800	225,558	165,242
<u>578,600</u>	<u>413,358</u>	<u>165,242</u>	<u>13,605,166</u>	<u>8,587,854</u>	<u>5,017,312</u>	<u>24,477,261</u>	<u>18,706,195</u>	<u>5,771,066</u>
(279,100)	(99,654)	179,446	(8,900,986)	(7,690,353)	1,210,633	(10,196,435)	(7,524,766)	2,671,669
-	-	-	337,820	56,724	(281,096)	337,820	56,724	(281,096)
-	-	-	-	-	-	66,713	73,100	6,387
-	-	-	<u>337,820</u>	<u>56,724</u>	<u>(281,096)</u>	<u>404,533</u>	<u>129,824</u>	<u>(274,709)</u>
(279,100)	(99,654)	179,446	(8,563,166)	(7,633,629)	929,537	(9,791,902)	(7,394,942)	2,396,960
304,633	304,633	-	3,719,542	3,719,542	-	5,141,513	5,141,513	-
-	-	-	5,051,947	5,051,947	-	5,095,730	5,095,730	-
<u>\$ 25,533</u>	<u>\$ 204,979</u>	<u>\$ 179,446</u>	<u>\$ 208,323</u>	<u>\$ 1,137,860</u>	<u>\$ 929,537</u>	<u>\$ 445,341</u>	<u>\$ 2,842,301</u>	<u>\$ 2,396,960</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
 COMBINED STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN RETAINED EARNINGS (ACCUMULATED DEFICIT)/FUND BALANCE  
 PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Operating revenues:			
Tuition and fees . . . . .	\$ 57,902	\$ -	\$ 57,902
Sales/charges for services . . . . .	208,006	-	208,006
Other operating revenues . . . . .	-	10,898	10,898
Investment earnings . . . . .	-	914	914
	<u>265,908</u>	<u>11,812</u>	<u>277,720</u>
Total operating revenues . . . . .			
Operating expenses:			
Personal services . . . . .	202,669	-	202,669
Contract services . . . . .	15,843	-	15,843
Materials and supplies . . . . .	180,926	-	180,926
Depreciation . . . . .	17,871	-	17,871
Other operating expenses . . . . .	-	5,664	5,664
	<u>417,309</u>	<u>5,664</u>	<u>422,973</u>
Total operating expenses . . . . .			
Operating income (loss) . . . . .	<u>(151,401)</u>	<u>6,148</u>	<u>(145,253)</u>
Nonoperating revenues (expenses):			
Grants and subsidies . . . . .	96,945	-	96,945
Federal commodities . . . . .	15,340	-	15,340
Loss on disposal of assets . . . . .	<u>(11,114)</u>	<u>-</u>	<u>(11,114)</u>
Total nonoperating revenues (expenses) . . . . .	<u>101,171</u>	<u>-</u>	<u>101,171</u>
Net income (loss) before capital contributions . . . . .	(50,230)	6,148	(44,082)
Capital contributions . . . . .	<u>367,652</u>	<u>-</u>	<u>367,652</u>
Net income . . . . .	317,422	6,148	323,570
Retained earnings (accumulated deficit)/ fund balance, July 1 . . . . .	<u>(17,159)</u>	<u>63,790</u>	<u>46,631</u>
Retained earnings / fund balance, June 30. . . . .	<u>\$ 300,263</u>	<u>\$ 69,938</u>	<u>\$ 370,201</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Cash flows from operating activities:			
Cash received from tuition and fees . . . . .	\$ 58,192	\$ -	\$ 58,192
Cash received from sales/service charges . . . . .	208,006	-	208,006
Cash received from other operations . . . . .	-	10,898	10,898
Cash payments for personal services . . . . .	(191,272)	-	(191,272)
Cash payments for contract services . . . . .	(15,843)	-	(15,843)
Cash payments for materials and supplies . . . . .	(165,650)	-	(165,650)
Cash payments for other expenses . . . . .	-	(4,564)	(4,564)
	(106,567)	6,334	(100,233)
Net cash provided by (used in) operating activities . . . . .			
Cash flows from noncapital financing activities:			
Cash received from grants and subsidies . . . . .	117,150	-	117,150
	117,150	-	117,150
Net cash provided by noncapital financing activities . . . . .			
Cash flows from investing activities:			
Interest received . . . . .	-	914	914
	-	914	914
Net cash provided by investing activities . . . . .			
Net increase in cash and cash equivalents . . . . .	10,583	7,248	17,831
Cash and cash equivalents at beginning of year . . . . .	172	63,790	63,962
Cash and cash equivalents at end of year . . . . .	\$ 10,755	\$ 71,038	\$ 81,793
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss) . . . . .	\$ (151,401)	\$ 6,148	\$ (145,253)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation . . . . .	17,871	-	17,871
Federal donated commodities . . . . .	15,340	-	15,340
Interest reported as operating income . . . . .	-	(914)	(914)
Changes in assets and liabilities:			
Decrease in materials and supplies inventory . . . . .	584	-	584
Decrease in accounts receivable . . . . .	290	-	290
Increase in accounts payable . . . . .	1,493	1,100	2,593
Increase in accrued wages and benefits . . . . .	9,659	-	9,659
Decrease in compensated absences payable . . . . .	(50)	-	(50)
Increase in due to other governments . . . . .	234	-	234
Increase in pension obligation payable . . . . .	198	-	198
Decrease in deferred revenue . . . . .	(785)	-	(785)
	(106,567)	6,334	(100,233)
Net cash provided by (used in) operating activities . . . . .			

Noncash Transactions: The District received \$367,652 in capital contributions which were recorded as fixed assets within the lunchroom fund.

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Western Reserve Local School District (the “District”) is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected five-member Board of Education and is responsible for providing public education to the residents of the District.

The District ranks as the 403<sup>rd</sup> largest by total enrollment among the 740 public and community school districts in the state. It currently operates 4 instructional facilities. The District employs 51 non-certified and 99 certified employees to provide services to approximately 1,380 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements (GPFS) of the 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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below:

**A. Reporting Entity**

The District’s reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial 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 of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

*JOINT VENTURE WITHOUT EQUITY INTEREST*

Northern Ohio Educational Computer Association (NOECA)

NOECA is a joint venture among 38 school districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have an equity interest in NOECA as the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Betty J. Schwiefert, Treasurer for the Erie-Huron-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 S. Columbus Avenue, Sandusky, Ohio 44870-5569.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

*JOINTLY GOVERNED ORGANIZATION*

Bay Area Council of Governments

The Bay Area Council of Governments consists of 26 school districts representing 7 counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca, and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance.

The only cost to the district is an administrative charge if they purchase something through the Council. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of 1 elected representative from each county, and the superintendent of the fiscal agent, and 2 non-voting members (administrator and fiscal officer).

Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting Betty Schwiefert, who serves as fiscal officer, at 2900 S. Columbus Avenue, Sandusky, Ohio, 44870-5569.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group 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 GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

**B. Fund Accounting**

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is divided into separate fund types.

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

*Special Revenue Funds* - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

*Capital Projects Funds* - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

*Enterprise Funds* - The enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*FIDUCIARY FUNDS*

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include a nonexpendable trust fund, an expendable trust fund and an agency fund.

The nonexpendable trust fund is accounted for in essentially the same manner as proprietary funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual.

*ACCOUNT GROUPS*

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

*General Fixed Assets Account Group* - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

*General Long-Term Obligations Account Group* - This group of accounts is established to account for all long-term obligations of the District, except those accounted for in the proprietary funds.

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the fiscal year include grants and entitlements (to the extent eligibility requirements have been met by year-end and the monies are available), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2003, but which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the modified accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from income taxes is recognized in the fiscal year in which the underlying exchange occurred and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures 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.

The proprietary fund type and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

**D. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement expenditures at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the fiscal year for all funds consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the fiscal year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The amounts reported in the budgetary statements reflect the amounts set forth in the final appropriation measure approved by the board for the fiscal year 2003.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements may not legally exceed budgeted appropriations at the fund level.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end, not recognized as accounts payable, appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting. There were no encumbrances for the enterprise funds at June 30, 2003. The District incurred expenditures without the Treasurer's prior certification of available funds, contrary to section 5705.41(D), Ohio Revised Code.

**E. Cash and Investments**

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

During 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and U.S. government money market mutual funds.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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, 2003.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The classroom facilities capital project fund receives interest earnings based upon state mandate. Interest revenue credited to the general fund during fiscal 2003, amounted to \$5,645, which includes \$2,335 assigned from other District funds.

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

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**F. Materials and Supplies Inventory**

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**G. Fixed Assets and Depreciation**

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the fiscal year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District has a policy of not capitalizing assets with a cost of less than \$500. 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 capitalized.

No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

2. Proprietary Funds

Furniture and equipment reflected in these funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture and equipment	15 - 20

**H. Contributed Capital**

Contributed capital reported in the enterprise funds represent resources provided from other funds, other governments, and private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year-end. The amount of depreciation is then “added back” to retained earnings, because the cost of providing services in the enterprise funds does not include depreciation expense on amounts of contributed capital. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at year-end. There was \$367,652 in capital contributions in the enterprise funds in 2003.

**I. Interfund Transactions**

Transactions between funds during the course of normal operations may occur. The most significant may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers. There were no operating transfers for the fiscal year ended June 30, 2003.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year. There were no outstanding interfund loans at June 30, 2003.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next fiscal year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had outstanding long-term advances at June 30, 2003.

An analysis of the District's interfund transactions for fiscal year 2003, is presented in Note 5.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance liability of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and severance liability for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

**K. Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Bonds and capital leases are reported as a liability of the general long-term obligations account group until due.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**L. Fund Equity**

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, debt service, tax revenue unavailable for appropriation, principal endowment, Bureau of Workers' Compensation (BWC) refunds, bus purchases, advances, and scholarships. Although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment, and for available cash from which student scholarship awards will be made. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

Designated fund balance represents planned actions for monies set-aside by the District for budget stabilization.

**M. Prepayments**

Prepayments for governmental funds represent cash disbursements, which have occurred and are, therefore, not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

**N. Estimates**

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**O. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 19 for details.

**P. Memorandum Only - Total Columns**

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Deficit Fund Balances**

Deficit fund balances at June 30, 2003, included the following:

	<u>Deficit Fund Balances</u>
<u>Special Revenue Funds</u>	
Teacher Development	\$ 3
Miscellaneous State Grants	1,577
Title I	9,094

These funds complied with Ohio state law, which does not allow a cash deficit at year-end. The general fund provides transfers for deficit fund balance; however, transfers are made when cash is needed rather than when accruals occur.

The deficit fund balances in the Teacher Development , Miscellaneous State Grants, and Title I special revenue funds are a result of accruing wage and benefit obligations in accordance with GAAP. These deficits will be eliminated by future and intergovernmental revenues not recognized at June 30, 2003.



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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Compliance**

The following funds had expenditures in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code at June 30, 2003:

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Special Revenue Funds</u>	
Disadvantaged Pupil Program	\$ 2,457
Ohio Reads	12,759
Miscellaneous State Grants	3,282
Eisenhower Professional Development	748
Improving Teacher Quality	20,874
Miscellaneous Federal Grants	433
 <u>Capital Projects Fund</u>	
Technology Equity	13,978

**C. Agency Funds**

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>LIABILITIES</u>	
Accounts payable	\$6,987
Due to other governments	61

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Inactive deposits are public deposits 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 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 moneys 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

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 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time, and;
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 year-end, the carrying amount of the District's deposits was \$94,688 and the bank balance was \$288,221. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

2. \$188,221 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

*Investments:* The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and uncollateralized investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and uncollateralized investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

STAR Ohio and U.S. government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Federal agency securities	\$1,836,590	\$1,836,590	\$1,836,590
Not subject to categorization:			
Investment in STAR Ohio	-	68,774	68,774
U.S. government money market mutual funds	<u>-</u>	<u>1,438,675</u>	<u>1,438,675</u>
Total investments	<u>\$1,836,590</u>	<u>\$3,344,039</u>	<u>\$3,344,039</u>

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,438,727	\$ -
Investments of the cash management pool:		
Federal agency securities	(1,836,590)	1,836,590
Investment in STAR Ohio	(68,774)	68,774
U.S. Government money market mutual funds	<u>(1,438,675)</u>	<u>1,438,675</u>
GASB Statement No. 3	<u>\$ 94,688</u>	<u>\$3,344,039</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

The District had the following long-term advances outstanding at June 30, 2003:

	<u>Advance to Other Funds</u>	<u>Advance from Other Funds</u>
General Fund	\$29,315	\$ -
<u>Special Revenue Funds</u>		
District Managed Student Activity	-	2,000
Miscellaneous State Grant	-	3,800
<u>Enterprise Fund</u>		
Food Service	<u>-</u>	<u>23,515</u>
Total	<u>\$29,315</u>	<u>\$29,315</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

The assessed value upon which the 2002 taxes were collected was \$90,790,500. Agricultural/residential and public utility/minerals real estate represented 80.12% or \$72,741,270 of this total; commercial & industrial real estate represented 9.67% or \$8,780,230 of this total; public utility tangible represented 3.80% or \$3,453,850 of this total and general tangible property represented 6.41% or \$5,815,150 of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was \$31.10 per \$1,000 of assessed valuation for operations.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 30.

The Huron and Erie County Treasurers collect property tax on behalf of the District. The Huron and Erie County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2003, totaled \$198,117 in the general fund, \$28,962 in the debt service fund and \$4,815 in the classroom facilities special revenue fund.

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

The voters of the District have passed 2 income tax levies. The first income tax levy was passed in May of 1990 and established a 3/4% income tax effective January 1, 1991, for an indefinite period of time. The second income tax levy was passed in March of 1996 and established an additional 1/2% income tax effective January 1, 1998 for an indefinite period of time. School district income tax revenue received by the general fund during fiscal year 2003, was \$1,365,552.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), long-term advances, and intergovernmental grants (to the extent such grants relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 8 - RECEIVABLES - (Continued)**

A summary of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$2,294,140
Accounts	188
Advances	29,315
 <u>Special Revenue Funds</u>	
Taxes - current and delinquent	42,107
Accounts	1,532
Due from other governments	11,273
 <u>Debt Service Fund</u>	
Taxes - current and delinquent	253,214
 <u>Enterprise Funds</u>	
Accounts	67

**NOTE 9 - FIXED ASSETS**

A summary of the changes in the general fixed asset account group during the fiscal year follows:

	<u>Restated Balance</u>		<u>Additions</u>		<u>Disposals</u>		<u>Balance</u>
	<u>July 1, 2002</u>					<u>June 30, 2003</u>	
Land/improvements	\$ 84,361	\$ 9,590	\$ -	\$ 93,951			
Buildings/improvements	3,214,020	17,095,990	(2,613,551)	17,696,459			
Furniture/equipment	2,061,648	442,923	(440,561)	2,064,010			
Vehicles	898,860	-	(73,762)	825,098			
Construction in progress	<u>8,891,779</u>	<u>-</u>	<u>(8,891,779)</u>	<u>-</u>			
 Total	 <u>\$15,150,668</u>	 <u>\$17,548,503</u>	 <u>\$(12,019,653)</u>	 <u>\$20,679,518</u>			

Construction in progress was restated at July 1, 2002 to present actual activity incurred.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 9 - FIXED ASSETS - (Continued)**

A summary of the proprietary fixed assets at June 30, 2003 follows:

Furniture and equipment	\$367,652
Less: accumulated depreciation	<u>(17,871)</u>
Net fixed assets	<u>\$349,781</u>

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the District has entered into capitalized leases for the acquisition of copiers. The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types and Expendable Trust Fund. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$63,745, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2003 fiscal year totaled \$13,983. This amount is reflected as debt service principal retirement in the general fund.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003.

Fiscal year Ending <u>June 30</u>	<u>General Long-Term Obligations</u> <u>Equipment</u>
2004	\$16,714
2005	13,762
2006	13,762
2007	<u>13,762</u>
Total future minimum lease payments	58,000
Less: amount representing interest	<u>(8,238)</u>
Present value of future minimum lease payments	<u>\$49,762</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A.** During fiscal year 1997, the District issued unvoted debt, in the form of energy conservation bonds to provide funds for high school and middle school capital improvements. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, the unmatured obligation of the District is accounted for in the general long-term obligations account group. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund.
- B.** During the fiscal year 2001, the District issued general obligation bonds to provide funds for the acquisition, construction, and furnishing of new buildings. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.36 mill bonded debt tax levy.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

These bonds represent the amount of the construction project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2003, the total estimated cost of the building project is \$18,167,669, of which OSFC will pay \$15,894,157.

In conjunction with the 3.36 mills, which support the bond issue, the District also passed in fiscal 2001, a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$3,265,000, and capital appreciation bonds, par value \$282,000. The average interest rate on the current interest bonds is 5.537%. The capital appreciation bonds mature on December 1, 2009 (effective interest 10.736%) and December 1, 2010 (effective interest 10.736%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the general long-term obligations account group at June 30, 2003 was \$96,000. Total accreted interest of \$37,590 has been included in the general long-term obligations account group at June 30, 2003. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2010 through November 30, 2011	102% of par
December 1, 2011 through November 30, 2011	101% of par
December 1, 2012 and thereafter	100% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2023.

- C. During the fiscal year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension benefit obligation will ultimately be paid from the fund from which the employee is paid.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
<u>General Obligation Bonds:</u>				
Series 1996, Energy conservation 5.20%, 12/01/06 maturity	\$ 294,500	\$ -	\$(117,800)	\$ 176,700
Series 2000, Construction current interest bonds 5.537%, 12/01/23 maturity	3,205,000	-	(70,000)	3,135,000
Series 2000, Construction capital appreciation bonds 10.736% (average effective) 12/01/09 and 12/01/10 maturity	96,000	-	-	96,000
Series 2000, Construction capital appreciation bonds accrued interest	<u>24,048</u>	<u>13,542</u>	<u>-</u>	<u>37,590</u>
Total general obligation bonds	<u>3,619,548</u>	<u>13,542</u>	<u>(187,800)</u>	<u>3,445,290</u>
<u>Other Obligations:</u>				
Compensated absences	467,765	83,660	(38,159)	513,266
Capital lease obligation	63,745	-	(13,983)	49,762
Pension obligation payable	<u>65,719</u>	<u>69,598</u>	<u>(65,719)</u>	<u>69,598</u>
Total other obligations	<u>597,229</u>	<u>153,258</u>	<u>(117,861)</u>	<u>632,626</u>
Total, all general long-term obligations	<u>\$4,216,777</u>	<u>\$166,800</u>	<u>\$(305,661)</u>	<u>\$4,077,916</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

**D.** Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

Current Interest Fiscal Year Ending June 30,	General Obligation Bonds	Capital Appreciation General Obligation Bonds	Energy Conservation Bonds	Total
2004	\$ 252,095	\$ -	\$ -	\$ 321,715
2005	253,114	-	69,620	319,671
2006	253,825	-	66,557	317,319
2007	254,223	-	63,494	254,223
2008	254,323	-	-	254,323
2009 - 2013	1,112,931	282,000	-	1,394,931
2014 - 2018	1,387,588	-	-	1,387,588
2019 - 2023	1,424,436	-	-	1,424,436
2024	<u>282,906</u>	<u>-</u>	<u>-</u>	<u>282,906</u>
Total	5,475,441	282,000	199,671	5,957,112
Less: interest	<u>(2,340,441)</u>	<u>(148,410)</u>	<u>(22,971)</u>	<u>(2,511,822)</u>
Total	<u>\$ 3,135,000</u>	<u>\$ 133,590</u>	<u>\$176,700</u>	<u>\$ 3,445,290</u>

**E. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2003, are a voted debt margin of \$5,136,496 (including available funds of \$233,941), an unvoted debt margin of \$90,791, and an unvoted energy conservation debt margin of \$640,415.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 12 - EMPLOYEE BENEFITS**

**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. 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. Upon retirement, payment is made for 25% of unused accumulated sick leave days up to 62 days for certified employees and 60 days for classified employees.

**NOTE 13 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District has contracted with Indiana Insurance Company to provide general liability, fleet, building and contents coverage. The District has contracted with the Midwestern Indemnity Company for builder's risk coverage.

The District had the following coverages in effect for fiscal year 2003:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 2,000,000	\$ -
Aggregate	5,000,000	-
Fleet:		
Comprehensive	1,000,000	50
Collision	1,000,000	250
Building and contents	11,923,371	500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal 2002.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 13 - RISK MANAGEMENT - (Continued)**

**B. Health Benefits**

The District joined together with other area school districts to form the Erie-Huron School Employee Insurance Association, a public entity risk management and employee health benefits program for 14 member school districts. The District pays a monthly premium to the pool for health, life and dental insurance, including prescription coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums, and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$200,000 for any employee.

**C. Ohio School Board Association Group Workers' Compensation Rating Program**

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 16. As such, no funding provisions are required by the District.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 14 - SEGMENT INFORMATION - ENTERPRISE FUNDS**

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2003.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total</u>
Operating revenues	\$ 208,006	\$57,902	\$ 265,908
Operating expenses before depreciation	351,649	47,789	399,438
Depreciation expense	17,871	-	17,871
Operating income/(loss)	(161,514)	10,113	(151,401)
Grants and subsidies	96,945	-	96,945
Donated federal commodities	15,340	-	15,340
Loss on sale of assets	(11,114)	-	(11,114)
Capital contributions	367,652	-	367,652
Net income 307,309	10,113	317,422	
Net working capital	(36,507)	10,504	(26,003)
Total assets	354,857	10,822	365,679
Total liabilities	65,098	318	65,416
Total retained earnings	289,759	10,504	300,263



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 8.17% was the portion 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$155,838, \$185,867, and \$140,682, respectively; 47.69% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$81,516 represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB 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. 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.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$596,606, \$584,524, and \$542,455, respectively; 81.93% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$107,788 represents the unpaid contribution for fiscal year 2003.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 16 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$42,615 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 16 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$82,268 during the 2003 fiscal year.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types 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 the GAAP basis are that:

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the fiscal year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing Sources  
Over (Under) Expenditures**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$ 264,883	\$73,458	\$(99,654)	\$(7,633,629)
Net adjustment for revenue accruals	187,522	3,393	28,516	(6,724)
Net adjustment for expenditure accruals	(353,164)	(2,416)	-	806,701
Net adjustment for other sources/uses	(73,100)	-	-	-
Adjustment for encumbrances	<u>121,273</u>	<u>-</u>	<u>-</u>	<u>307,660</u>
GAAP basis	<u>\$ 147,414</u>	<u>\$74,435</u>	<u>\$(71,138)</u>	<u>\$(6,525,992)</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

**B. Litigation**

The District is not currently a party to any legal proceedings.

**C. School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 19 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2002	\$ (75,468)	\$(3,976,228)	\$305,448	\$19,552
Current fiscal year set-aside requirement	174,237	174,237	-	-
Qualifying disbursements	<u>(574,488)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$(475,719)</u>	<u>\$(3,801,991)</u>	<u>\$305,448</u>	<u>\$19,552</u>
Cash balance carried forward to FY 2004	<u>\$(475,719)</u>	<u>\$(3,801,991)</u>	<u>\$305,448</u>	<u>\$19,552</u>

The District issued \$3,361,000 in bonds in fiscal year 2001 to provide for the renovation and construction of school buildings. This amount is an allowable offset to future years for the capital acquisition set-aside. The negative amount is therefore presented as being carried forward to the next fiscal year. The District also had qualifying disbursements which reduced the set-aside amount below zero for the textbook reserve. This negative amount will be presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received \$42,995 regarding monies restricted for school bus purchases. The amount of \$42,995 for school bus reserves is presented within the general fund on the combined balance sheet at June 30, 2003.

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for BWC refunds	\$19,552
Amount restricted for bus purchase allowance	<u>42,995</u>
Total restricted assets	<u>\$62,547</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**NOTE 20 - CONTRACTUAL COMMITMENTS**

At June 30, 2003, the District had the following outstanding contractual commitments related to construction contracts undertaken by the District:

<u>Vendor Total Contract</u>	<u>Amount Paid</u>	<u>Amount at 6/30/03</u>	Remaining Commitment
Mark Schaffer Excavating	\$ 89,250	\$ 64,362	\$ 24,888
Simplex Grinnell	205,338	172,565	32,773
S.S. Kemp, Inc.	182,657	180,223	2,434
Bay Mechanical	1,018,530	999,274	19,256
Guenther Mechanical	1,620,246	1,565,466	54,780
Alvada Construction	<u>3,153,331</u>	<u>2,940,620</u>	<u>212,711</u>
Total	<u>\$6,269,352</u>	<u>\$5,922,510</u>	<u>\$346,842</u>

**NOTE 21 - SUBSEQUENT EVENT**

Diane Wolf will resign her position of Treasurer effective January 1, 2004.



## **SUPPLEMENTAL DATA**

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A),(B) Food Distribution	10.550	N/A	\$ -	\$ 15,430	\$ -	\$ 15,430
(A),(C) National School Lunch	10.555	047746-LL-P4-2002	27,995		27,995	
(A),(C) National School Lunch	10.555	047746-LL-P4-2003	84,963		84,963	
<b>Total U.S. Department of Agriculture and Nutrition Cluster</b>			<u>112,958</u>	<u>15,430</u>	<u>112,958</u>	<u>15,430</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
Title I - Grants to Local Educational Agencies	84.010	047746-C1-S1-2002	-		1,186	
Title I - Grants to Local Educational Agencies	84.010	047746-C1-S1-2003	109,312		107,433	
<b>Total Title I</b>			<u>109,312</u>		<u>108,619</u>	
Title VI-B - Special Education: Grants to States	84.027	047746-6B-SF-2003	163,700		110,163	
Safe and Drug-Free Schools	84.186	047746-DR-S1-2002	-		1,792	
Safe and Drug-Free Schools	84.186	047746-DR-S1-2003	3,689		3,555	
<b>Total Safe and Drug-Free Schools</b>			<u>3,689</u>		<u>5,347</u>	
Goals 2000	84.276	047746-G2-S2-2001	-		240	
(E) Eisenhower Professional Development	84.281	N/A	849		849	
(E) Eisenhower Professional Development	84.281	N/A	6,604		6,604	
<b>Total Eisenhower Professional Development</b>			<u>7,453</u>		<u>7,453</u>	
Title VI - Innovative Educational Program Strategies	84.298	047746-C2-S1-2002	-		3,966	
Title VI - Innovative Educational Program Strategies	84.298	047746-C2-S1-2003	7,227		1,349	
<b>Total Title VI</b>			<u>7,227</u>		<u>5,315</u>	
Technology Literacy Challenge	84.318	047746-TJ-S1-2003	2,993		2,902	
Title VI-R - Class Size Reduction	84.340	047746-CR-S1-2002	-		30,445	
Assistive Technology Infusion Project	84.352A	047746-AT-S3-2002	10,083		9,090	
Improving Teacher Quality	84.367	047746-TR-S1-2003	48,026		38,455	
<b>Total U.S. Department of Education</b>			<u>352,483</u>		<u>318,029</u>	
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
Learn and Serve	94.004	047746-SV-S3-2003	15,000		15,418	
<b>Total Federal Financial Assistance</b>			<u>\$ 480,441</u>	<u>\$ 15,430</u>	<u>\$ 446,405</u>	<u>\$ 15,430</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.  
 (B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.  
 (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.  
 (D) This schedule was prepared on the cash basis of accounting.  
 (E) Passthrough grant money from Erie-Huron-Ottawa ESC.

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
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Facsimile 614.846.2799

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

Board of Education  
Western Reserve Local School District  
3765 U.S. Route 20 East  
Collins, Ohio 44826

We have audited the general purpose financial statements of Western Reserve Local School District as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. 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.

### Compliance

As part of obtaining reasonable assurance about whether Western Reserve Local School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2003-WRLSD-001 and 2003-WRLSD-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of Western Reserve Local School District in a separate letter dated December 15, 2003.

Board of Education  
Western Reserve Local School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Western Reserve Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance 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 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Western Reserve Local School District in a separate letter dated December 15, 2003.

This report is intended for the information of the Board and management of the Western Reserve Local School District, 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.

Trimble, Julian & Grube, Inc.  
December 15, 2003

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

Board of Education  
Western Reserve Local School District  
3765 U.S. Route 20 East  
Collins, Ohio 44826

### Compliance

We have audited the compliance of Western Reserve Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2003. Western Reserve Local School District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Western Reserve Local School District’s management. Our responsibility is to express an opinion on Western Reserve Local 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, Audit 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 Western Reserve Local 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 on Western Reserve Local School District’s compliance with those requirements.

Board of Education  
Western Reserve Local School District

In our opinion, Western Reserve Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2003.

#### Internal Control Over Compliance

The management of Western Reserve Local 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 Western Reserve Local 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 internal control over compliance in accordance with *OMB Circular A-133*.

We noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Western Reserve Local School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-WRLSD-003.

A material weakness is a 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 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of the Board of Education and management of the Western Reserve Local School District, 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.

Trimble, Julian & Grube, Inc.  
December 15, 2003

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
JUNE 30, 2003**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Were there any reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	Yes
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Nutrition Grant Cluster: Food Distribution, CFDA #10.550; National School Lunch Program, CFDA #10.555
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
JUNE 30, 2003**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505**

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

Finding Number	2003-WRLSD-001
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the Western Reserve Local School District had expenditures exceeding appropriations in the following funds:

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Special Revenue Funds</u>	
Disadvantaged Pupil Program	\$ 2,457
Ohio Reads	12,759
Miscellaneous State Grants	3,282
Eisenhower Professional Development	748
Improving Teacher Quality	20,874
Miscellaneous Federal Grants	433
 <u>Capital Projects Fund</u>	
Technology Equity	13,978

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the Western Reserve Local School District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget throughout the fiscal year as needed. This may be achieved by monitoring the budget more closely on a continual basis throughout the year.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
JUNE 30, 2003**

**SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 § .505***

<b>2. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2003-WRLSD-002
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 39% of expenditures tested for the fiscal year that invoices were dated prior to the purchase order by the Treasurer, thus causing those expenditures not to be certified in a timely manner.

Without timely certification, the Western Reserve Local School District increases the risk that purchases may be made for an improper public purpose, expend more funds than are appropriated, or that are available in the treasury or in the process of collection. Thus a negative fund balance may result.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. A policy and procedure statement adopted by the Board and distributed at least annually may be beneficial. The Western Reserve Local School District should consider using "Then" and "Now" certificates where applicable.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
JUNE 30, 2003**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505**

**3. FINDINGS FOR FEDERAL AWARDS**

1. Verification of Free/Reduced Applications

Finding Number	2003-WRLSD-003
CFDA Title and Number	Nutrition Grant Cluster: Food Distribution, CFDA #10.550; School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555
Federal Award Number/Year	LL-P4-02, LL-P4-03
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Agriculture

INTERNAL CONTROLS-REPORTABLE CONDITION

In part, the Nutrition Grant Cluster requires participating District's to verify a sample of free and reduced lunch applications. The verification procedure determines if family income amounts reported on the initial student applications were accurate. In addition, upon review, the District will complete the verification summary report detailing results.

The Western Reserve Local School District did not verify the information presented on a sample of the applications that it has approved for free and reduced price meals for the fiscal year ended June 30, 2003.

Not properly reviewing, recalculating and verifying income documentation selected may result in a student being placed in an inappropriate category. This may result in the Western Reserve Local School District losing potential food service receipts and/or a low income student not receiving proper benefits.

The District's Food Service Supervisor maintains the grant guidelines and handbook, however, she misunderstood the verification requirements. The District will implement the required policies and procedures immediately.

We recommend that the Western Reserve Local School District properly recalculate verification documentation and properly reclass any student category changes by December 15 of each school year. We recommend the Western Reserve Local School District properly document its verification procedures and retain all supporting calculations. Further, we recommend that the Western Reserve Local District refer to the grant guidelines and handbook or contact the state Grant Director if any questions should arise.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
JUNE 30, 2003**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
*OMB CIRCULAR A-133 § .505***

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b><u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u></b>
2002-WRLSD-001	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Reported as finding number 2003-WRLSD-001.





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**WESTERN RESERVE LOCAL SCHOOL DISTRICT**

**HURON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 3, 2004**