

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Western Reserve Local School District  
Huron County  
3765 U.S. Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

May 10, 2007

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

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

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$1,244,965 which represents a 6.99% decrease from 2005.
- General revenues accounted for \$10,370,148 in revenue or 85.26% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,792,169 or 14.74% of total revenues of \$12,162,317.
- The District had \$13,407,282 in expenses related to governmental activities; \$1,792,169 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,370,148 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, and permanent improvement fund. The general fund had \$10,514,759 in revenues and \$10,984,227 in expenditures. During fiscal year 2006, the general fund's fund balance decreased \$469,468 from a restated balance of \$520,705 to \$51,237.
- The debt service fund had revenues of \$262,686 and expenses of \$320,950 decreasing the fund balance by \$58,264 from \$214,457 in 2005 to \$156,193 in 2006.
- The permanent improvement fund balance decreased \$16,635 from \$466,563 in 2005 to \$449,928 in 2006.

**Using these Basic Financial Statements**

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

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund, and permanent improvement fund.

***Governmental Funds***

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



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

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

**The District as a Whole**

The table below provides a summary of the District's net assets for fiscal years 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 4,194,369	\$ 4,520,972
Capital assets, net	<u>19,333,127</u>	<u>20,187,160</u>
Total assets	<u>23,527,496</u>	<u>24,708,132</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,324,568	3,066,674
Long-term liabilities	<u>3,630,895</u>	<u>3,824,460</u>
Total liabilities	<u>6,955,463</u>	<u>6,891,134</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	16,343,943	17,036,902
Restricted	879,118	907,996
Unrestricted (deficit)	<u>(651,028)</u>	<u>(127,900)</u>
Total net assets	<u>\$ 16,572,033</u>	<u>\$ 17,816,998</u>

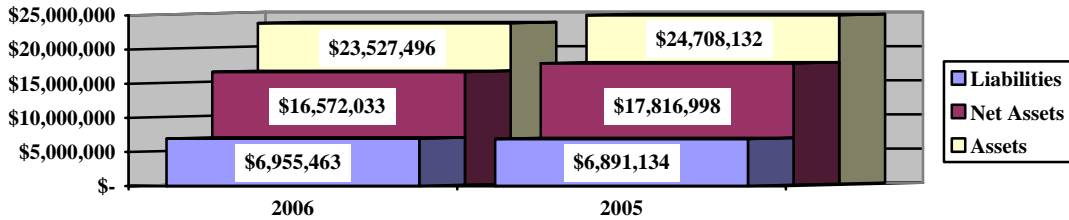
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$16,572,033.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

At fiscal year-end, capital assets represented 82.17% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets net of related debt to acquire the assets at June 30, 2006 was \$16,343,943. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the District's net assets, \$879,118, represents resources that are subject to external restrictions on how they may be used.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities 2006	Governmental Activities 2005
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,003,936	\$ 820,181
Operating grants and contributions	775,561	906,975
Capital grants and contributions	12,672	
General revenues:		
Taxes	3,564,438	3,789,168
Grants and entitlements	6,755,854	6,511,196
Investment earnings	49,856	32,262
Other	-	50,062
<b>Total revenues</b>	<b>\$ 12,162,317</b>	<b>\$ 12,109,844</b>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,946,029	\$ 5,419,029
Special	1,335,702	1,203,135
Vocational	249,047	205,742
Adult continuing education		19,721
Other	162,436	127,638
Support services:		
Pupil	506,094	461,771
Instructional staff	641,285	805,524
Board of education	171,180	187,200
Administration	781,866	781,919
Fiscal	445,597	418,843
Business	16,286	
Operations and maintenance	1,103,975	1,105,841
Pupil transportation	811,526	789,277
Central	94,762	
Operations of non-instructional services		152,405
Extracurricular activities	460,608	442,298
Food service operations	488,264	400,370
Interest and fiscal charges	192,625	195,928
<b>Total expenses</b>	<b><u>13,407,282</u></b>	<b><u>12,716,641</u></b>
<b>Change in net assets</b>	<b>(1,244,965)</b>	<b>(606,797)</b>
<b>Net assets at beginning of year</b>	<b><u>17,816,998</u></b>	<b><u>18,423,795</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 16,572,033</u></b>	<b><u>\$ 17,816,998</u></b>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$1,244,965. The decrease in net assets is primarily due to an increase in revenues of only \$52,473 or 0.43% from 2005 combined with increased expenditures of \$690,641 or 5.43%, which is attributed to one additional payroll and related benefits paid out during fiscal year 2006 and an increase in the purchase of textbooks. Total governmental expenses of \$13,407,282 were partly offset by program revenues of \$1,792,169 and general revenues of \$10,370,148. Program revenues supported 13.37% of the total governmental expenses.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

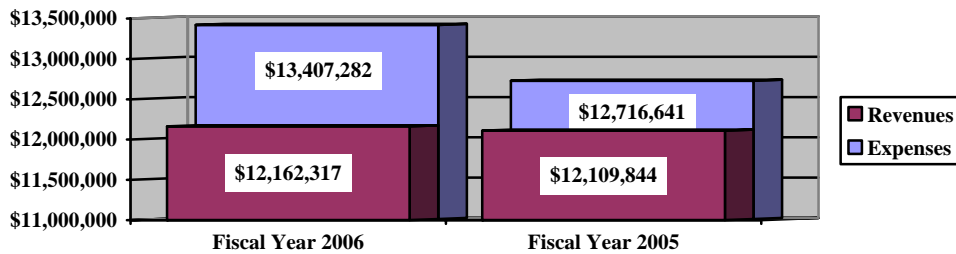
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The primary sources of revenue for governmental activities are derived from property and income taxes, and grants and entitlements. These revenue sources represent 84.85% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,693,214 or 57.38% of total governmental expenses for fiscal 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<b>Governmental Activities</b>			
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,946,029	\$ 5,336,366	\$ 5,419,029	\$ 4,851,419
Special	1,335,702	1,167,928	1,203,135	1,043,071
Vocational	249,047	229,889	205,742	184,518
Adult continuing education			19,721	19,721
Other	162,436	144,426	127,638	127,638
Support services:				
Pupil	506,094	247,394	461,771	219,624
Instructional staff	641,285	620,925	805,524	719,057
Board of education	171,180	171,180	187,200	187,200
Administration	781,866	777,018	781,919	780,558
Fiscal	445,597	424,644	418,843	418,843
Business	16,286	3,065		
Operations and maintenance	1,103,975	1,103,975	1,105,841	1,105,841
Pupil transportation	811,526	811,526	789,277	789,277
Central	94,762	94,762		
Operations of non-instructional services			152,405	152,405
Extracurricular activities	460,608	233,752	442,298	191,919
Food service operations	488,264	55,638	400,370	2,466
Interest and fiscal charges	<u>192,625</u>	<u>192,625</u>	<u>195,928</u>	<u>195,928</u>
<b>Total expenses</b>	<u>\$ 13,407,282</u>	<u>\$ 11,615,113</u>	<u>\$ 12,716,641</u>	<u>\$ 10,989,485</u>

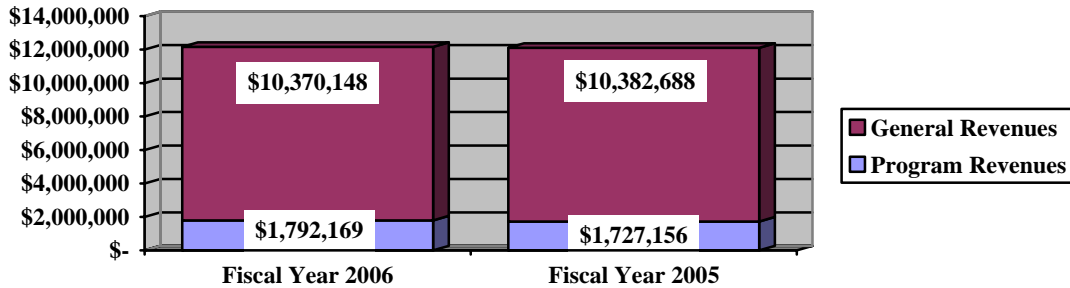
The dependence upon tax and other general revenues for governmental activities is apparent, 89.41% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.63%. The District's taxpayers along with the State foundation revenues, as a whole, are by far the primary support for District's students.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$820,375 which is lower than last year's restated balance of \$1,395,571. The June 30, 2005 fund balances have been restated as described in Note 3.B to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Restated Fund Balance June 30, 2005	(Decrease)
General	\$ 51,237	\$ 520,705	\$ (469,468)
Debt Service	156,193	214,457	(58,264)
Permanent Improvement	449,928	466,563	(16,635)
Other Governmental	<u>163,017</u>	<u>193,846</u>	<u>(30,829)</u>
Total	<u>\$ 820,375</u>	<u>\$ 1,395,571</u>	<u>\$ (575,196)</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**General Fund**

The District's general fund balance decreased \$469,468. The following table shows the changes in selected revenues and expenditures in the general fund from 2005 and 2006.

	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 3,292,547	\$ 3,490,073	\$ (197,526)	(5.66) %
Tuition	399,874	280,705	119,169	42.45 %
Earnings on investments	31,657	24,556	7,101	28.92 %
Intergovernmental	6,716,427	6,471,117	245,310	3.79 %
Other revenues	<u>74,254</u>	<u>50,439</u>	<u>23,815</u>	47.22 %
Total	<u>\$ 10,514,759</u>	<u>\$ 10,316,890</u>	<u>\$ 197,869</u>	1.92 %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,694,491	\$ 6,253,666	\$ 440,825	7.05 %
Support services	4,037,652	3,949,227	88,425	2.24 %
Non-instructional services		111,013	(111,013)	(100.00) %
Extracurricular activities	238,322	226,104	12,218	5.40 %
Debt service	<u>13,762</u>	<u>13,762</u>	<u>-</u>	- %
Total	<u>\$ 10,984,227</u>	<u>\$ 10,553,772</u>	<u>\$ 430,455</u>	4.08 %

The decrease in the general fund balance is due to stagnant revenues and an increase in expenditures due to the payment of 27 payrolls and related benefits during fiscal year 2006 along with increased textbooks purchases.

**Debt Service Fund**

The District's debt service fund balance decreased \$58,264. The decrease in fund balance can be attributed to the decrease in tax revenue recorded in fiscal year 2006.

**Permanent Improvement Fund**

The District's permanent improvement fund balance decreased \$16,635. The decrease in fund balance can be attributed to an increase of regular instruction expenditures.

**General Fund Budgeting Highlights**

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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(Continued)**

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,702,662 and final budgeted revenues and other financing sources were \$11,016,975. Actual revenues and other financing sources for fiscal 2006 was \$10,891,628. This represents a \$125,347 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) were \$11,260,320 and the final appropriations were \$11,572,995. The actual budget basis expenditures for fiscal year 2006 totaled \$11,185,720, which is \$387,275 less than the final appropriations. Actual budget basis expenditures were less than final appropriations due to the appropriation for severance payments in regular and special instruction and bus purchases which did not actually occur during fiscal year 2006.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$19,333,127 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The June 30, 2005 balances have been restated as described in Note 3.B to the basic financial statements. See Note 9 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 351,793	\$ 351,793
Land improvements	408,997	449,989
Building and improvements	17,414,251	17,950,652
Furniture and equipment	820,903	987,899
Vehicles	337,183	446,827
Total	\$ 19,333,127	\$ 20,187,160

The overall decrease in capital assets of \$854,033 is due to depreciation expense of \$922,530 exceeding capital outlays of \$82,563 in the fiscal year and net disposals of \$14,066.

***Debt Administration***

At June 30, 2006, the District had \$3,064,090 in general obligation bonds outstanding. Of this total, \$95,000 is due within one year and \$2,969,090 is due within greater than one year. See Note 11 to the basic financial statements for additional information. The following table summarizes the bonds outstanding.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**Outstanding Debt, at Year End**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
General obligation bonds	\$ 2,976,000	\$ 3,066,000
Accreted interest	88,090	69,429
Energy conservation bonds	<u>-</u>	<u>58,900</u>
Total	<u>\$ 3,064,090</u>	<u>\$ 3,194,329</u>

At June 30, 2006, the District's overall legal debt margin was \$6,380,246, and an unvoted debt margin of \$103,202.

**Current Financial Related Activities**

Western Reserve Schools have continued to maintain the highest standards of service to our students, parents and community. The School District is always presented with challenges and opportunities. The local economy has suffered with the national economy in past years and we continue to review and analyze the impact this has on our property and income tax base and collections.

The District has carefully managed its General Fund budgets in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed periodically from district residents. The District is committed to living within its financial means and will continue to work diligently to plan expenses, staying carefully within the five-year financial plan. Current State law retards the growth of income generated by local levies, rendering revenue relatively constant. This lack of revenue growth forces the District to come back to the voters from time to time and ask for additional financial support.

The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed additional revenue growth toward the support of School Districts with little property tax wealth. In May, 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes. While the Court directed the Governor and legislature to address the fundamental issues creating the inequities, we are still today operating within a funding system of inadequacy.

As a result, all of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative that the School District's Board and management team continue to carefully and prudently plan in order to provide the resources required to meet the community's desired needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Brett Robson, Treasurer, Western Reserve Local School District, 3765 U.S. 20 East, Collins, Ohio 44826.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

		<u>Governmental Activities</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$	1,285,423
Receivables:		
Taxes . . . . .		2,842,838
Accounts . . . . .		310
Intergovernmental . . . . .		18,125
Accrued interest . . . . .		2,954
Prepayments . . . . .		38,229
Materials and supplies inventory . . . . .		6,490
Capital assets:		
Land . . . . .		351,793
Depreciable capital assets, net . . . . .		18,981,334
Capital assets, net. . . . .		<u>19,333,127</u>
Total assets. . . . .		<u>23,527,496</u>
<b>Liabilities:</b>		
Accounts payable. . . . .		182,060
Accrued wages and benefits . . . . .		806,138
Pension obligation payable. . . . .		239,876
Intergovernmental payable . . . . .		100,245
Deferred revenue . . . . .		1,981,652
Accrued interest payable . . . . .		14,597
Long-term liabilities:		
Due within one year. . . . .		121,949
Due in more than one year . . . . .		3,508,946
Total liabilities . . . . .		<u>6,955,463</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt. . . . .		16,343,943
Restricted for:		
Capital projects . . . . .		450,264
Debt service. . . . .		148,829
Classroom facilities maintenance . . . . .		118,133
Locally funded programs. . . . .		677
State funded programs. . . . .		4,428
Federally funded programs. . . . .		78
Student activities. . . . .		55,331
Other purposes . . . . .		101,378
Unrestricted (deficit). . . . .		<u>(651,028)</u>
Total net assets . . . . .	\$	<u><u>16,572,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 5,946,029	\$ 459,299	\$ 137,692	\$ 12,672	\$ (5,336,366)
Special . . . . .	1,335,702		167,774		(1,167,928)
Vocational . . . . .	249,047		19,158		(229,889)
Other . . . . .	162,436	18,010			(144,426)
Support services:					
Pupil . . . . .	506,094		258,700		(247,394)
Instructional staff . . . . .	641,285		20,360		(620,925)
Board of education . . . . .	171,180				(171,180)
Administration. . . . .	781,866	3,582	1,266		(777,018)
Fiscal. . . . .	445,597	20,953			(424,644)
Business. . . . .	16,286	13,221			(3,065)
Operations and maintenance . . . . .	1,103,975				(1,103,975)
Pupil transportation. . . . .	811,526				(811,526)
Central . . . . .	94,762				(94,762)
Extracurricular activities. . . . .	460,608	226,856			(233,752)
Food service operations . . . . .	488,264	262,015	170,611		(55,638)
Interest and fiscal charges . . . . .	192,625				(192,625)
<b>Total governmental activities . . . . .</b>	<b>\$ 13,407,282</b>	<b>\$ 1,003,936</b>	<b>\$ 775,561</b>	<b>\$ 12,672</b>	<b>(11,615,113)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					1,766,978
Special revenue . . . . .					37,647
Debt service. . . . .					229,536
School district income tax. . . . .					1,530,277
Grants and entitlements not restricted to specific programs. . . . .					6,755,854
Investment earnings . . . . .					49,856
<b>Total general revenues. . . . .</b>					<b>10,370,148</b>
Change in net assets . . . . .					(1,244,965)
<b>Net assets at beginning of year (restated). . . . .</b>					<b>17,816,998</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 16,572,033</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents. . . . .	\$ 367,063	\$ 126,946	\$ 454,839	\$ 235,197	\$ 1,184,045
Receivables:					
Taxes . . . . .	2,534,310	265,488		43,040	2,842,838
Accounts. . . . .	310				310
Intergovernmental . . . . .	1,025			17,100	18,125
Accrued interest . . . . .	2,954				2,954
Interfund loans . . . . .	7,173				7,173
Prepayments. . . . .	38,229				38,229
Materials and supplies inventory . . . . .				6,490	6,490
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	101,378				101,378
<b>Total assets . . . . .</b>	<b><u>\$ 3,052,442</u></b>	<b><u>\$ 392,434</u></b>	<b><u>\$ 454,839</u></b>	<b><u>\$ 301,827</u></b>	<b><u>\$ 4,201,542</u></b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 123,071		\$ 4,911	\$ 54,078	\$ 182,060
Accrued wages and benefits . . . . .	781,535			24,603	806,138
Pension obligation payable . . . . .	226,808			13,068	239,876
Intergovernmental payable. . . . .	98,674			1,571	100,245
Interfund loan payable . . . . .				7,173	7,173
Deferred revenue. . . . .	1,771,117	\$ 236,241		38,317	2,045,675
<b>Total liabilities . . . . .</b>	<b><u>3,001,205</u></b>	<b><u>236,241</u></b>	<b><u>4,911</u></b>	<b><u>138,810</u></b>	<b><u>3,381,167</u></b>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	14,506		121,283	43,499	179,288
Reserved for materials and supplies inventory. . . . .				6,490	6,490
Reserved for prepayments . . . . .	38,229				38,229
Reserved for property tax unavailable for appropriation . . . . .	214,320	29,247		4,723	248,290
Reserved for budget stabilization . . . . .	19,552				19,552
Reserved for capital acquisitions . . . . .	81,826				81,826
Unreserved:					
Designation for budget stabilization . . . . .	165,738				165,738
Undesignated (deficit), reported in:					
General fund . . . . .	(482,934)				(482,934)
Special revenue funds. . . . .				108,305	108,305
Debt service fund . . . . .		126,946			126,946
Capital projects funds. . . . .			328,645		328,645
<b>Total fund balances . . . . .</b>	<b><u>51,237</u></b>	<b><u>156,193</u></b>	<b><u>449,928</u></b>	<b><u>163,017</u></b>	<b><u>820,375</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 3,052,442</u></b>	<b><u>\$ 392,434</u></b>	<b><u>\$ 454,839</u></b>	<b><u>\$ 301,827</u></b>	<b><u>\$ 4,201,542</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

**Total governmental fund balances** \$ 820,375

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 19,333,127

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

Taxes	\$ 61,069	
Accrued interest	2,954	

Total		64,023
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In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due. (14,597)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	(553,621)	
General obligation bonds payable	(3,064,090)	
Capital lease obligation	(13,184)	

Total		<u>(3,630,895)</u>
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**Net assets of governmental activities** \$ 16,572,033

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 3,292,547	\$ 228,773		\$ 37,535	\$ 3,558,855
Tuition. . . . .	399,874				399,874
Earnings on investments. . . . .	31,657		\$ 11,671	3,574	46,902
Charges for services. . . . .				262,015	262,015
Extracurricular. . . . .	34			226,822	226,856
Classroom materials and fees . . . . .				40,971	40,971
Other local revenues. . . . .	74,220				74,220
Intergovernmental - Intermediate. . . . .	68,968			250	69,218
Intergovernmental - State. . . . .	6,647,459	33,913		83,002	6,764,374
Intergovernmental - Federal . . . . .				710,495	710,495
Total revenue . . . . .	<u>10,514,759</u>	<u>262,686</u>	<u>11,671</u>	<u>1,364,664</u>	<u>12,153,780</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	5,125,871		11,211	183,167	5,320,249
Special. . . . .	1,173,948			154,128	1,328,076
Vocational. . . . .	232,689			16,358	249,047
Other. . . . .	161,983				161,983
Support services:					
Pupil. . . . .	247,312			258,782	506,094
Instructional staff . . . . .	666,597			22,520	689,117
Board of education . . . . .	171,180				171,180
Administration. . . . .	753,103			34,378	787,481
Fiscal . . . . .	445,474				445,474
Business . . . . .				16,286	16,286
Operations and maintenance. . . . .	1,006,415		17,095	83,941	1,107,451
Pupil transportation . . . . .	652,809				652,809
Central. . . . .	94,762				94,762
Extracurricular activities. . . . .	238,322			191,281	429,603
Food service operations . . . . .				433,618	433,618
Debt service:					
Principal retirement . . . . .	12,174	148,900			161,074
Interest and fiscal charges . . . . .	1,588	172,050		1,034	174,672
Total expenditures . . . . .	<u>10,984,227</u>	<u>320,950</u>	<u>28,306</u>	<u>1,395,493</u>	<u>12,728,976</u>
Net change in fund balances . . . . .	(469,468)	(58,264)	(16,635)	(30,829)	(575,196)
<b>Fund balances at beginning of year (restated) . . . . .</b>					
	<u>520,705</u>	<u>214,457</u>	<u>466,563</u>	<u>193,846</u>	<u>1,395,571</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 51,237</u>	<u>\$ 156,193</u>	<u>\$ 449,928</u>	<u>\$ 163,017</u>	<u>\$ 820,375</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Net change in fund balances - total governmental funds** \$ (575,196)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$	82,563	
Current year depreciation		<u>(922,530)</u>	(839,967)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (14,066)

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

Delinquent property taxes		5,583	
Accrued interest		<u>2,954</u>	8,537

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 161,074

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. (17,953)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 32,606

**Change in net assets of governmental activities** \$ (1,244,965)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,475,317	\$ 3,577,379	\$ 3,577,379	
Tuition. . . . .	388,394	399,800	399,874	\$ 74
Earnings on investments. . . . .	31,668	32,598	34,231	1,633
Extracurricular. . . . .			34	34
Other local revenues . . . . .	60,231	62,000	74,486	12,486
Intergovernmental - Intermediate . . . . .	65,088	67,000	67,943	943
Intergovernmental - State . . . . .	6,448,945	6,638,336	6,647,459	9,123
Total revenue . . . . .	<u>10,469,643</u>	<u>10,777,113</u>	<u>10,801,406</u>	<u>24,293</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,377,959	5,278,761	5,248,801	29,960
Special. . . . .	1,029,486	1,313,884	1,188,354	125,530
Vocational. . . . .	240,223	241,526	239,619	1,907
Other. . . . .	125,716	172,015	166,240	5,775
Support services:				
Pupil. . . . .	261,634	253,640	252,600	1,040
Instructional staff . . . . .	690,688	688,052	677,703	10,349
Board of education . . . . .	148,370	134,460	133,239	1,221
Administration. . . . .	761,415	780,159	776,786	3,373
Fiscal . . . . .	410,405	451,780	444,184	7,596
Operations and maintenance. . . . .	1,018,090	1,066,790	1,034,771	32,019
Pupil transportation . . . . .	612,675	641,915	630,135	11,780
Operation of non-instructional services . . . . .	110,000	100,000	94,762	5,238
Extracurricular activities. . . . .	273,659	242,813	241,353	1,460
Total expenditures . . . . .	<u>11,060,320</u>	<u>11,365,795</u>	<u>11,128,547</u>	<u>237,248</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(590,677)</u>	<u>(588,682)</u>	<u>(327,141)</u>	<u>261,541</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	24,287	25,000	25,360	360
Transfers in. . . . .	194,294	200,000	50,000	(150,000)
Transfers out . . . . .	(200,000)	(200,000)	(50,000)	150,000
Advances in. . . . .	14,438	14,862	14,862	
Advances out. . . . .		(7,200)	(7,173)	27
Total other financing sources (uses) . . . . .	<u>33,019</u>	<u>32,662</u>	<u>33,049</u>	<u>387</u>
Net change in fund balance . . . . .	(557,658)	(556,020)	(294,092)	261,928
<b>Fund balance at beginning of year. . . . .</b>	713,562	713,562	713,562	
<b>Prior year encumbrances appropriated . . . . .</b>	23,328	23,328	23,328	
<b>Fund balance at end of year . . . . .</b>	<u>\$ 179,232</u>	<u>\$ 180,870</u>	<u>\$ 442,798</u>	<u>\$ 261,928</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 83,755	\$ 42,392
Investments . . . . .	9,337	
Total assets. . . . .	93,092	\$ 42,392
<b>Liabilities:</b>		
Accounts payable. . . . .		\$ 1,381
Due to students . . . . .		41,011
Total liabilities . . . . .		\$ 42,392
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	93,092	
Total net assets . . . . .	\$ 93,092	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

		<u>Private-Purpose Trust</u>	
		<u>Scholarship</u>	
<b>Additions:</b>			
Interest . . . . .	\$	9,186	
Gifts and contributions. . . . .		<u>2,527</u>	
Total additions. . . . .		<u>11,713</u>	
<b>Deductions:</b>			
Scholarships awarded. . . . .		<u>4,949</u>	
Change in net assets . . . . .		6,764	
<b>Net assets at beginning of year. . . . .</b>		<u>86,328</u>	
<b>Net assets at end of year . . . . .</b>	<b>\$</b>	<b><u><u>93,092</u></u></b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 395<sup>th</sup> largest by total enrollment among the 615 public school districts in the state. It currently operates 4 instructional facilities. The District employs 54 non-certified and 117 certified employees to provide services to approximately 1,352 students in grades K through 12 and various community groups.

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

The basic financial statements 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 on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organization Are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic 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, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association

The Northern Ohio Education Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. During the fiscal year, the District paid NOECA \$38,019 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

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 districts is an administrative charge if they purchase something through the Council. The District paid \$118,572 to the Bay Area Council of Governments in 2006. 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 South Columbus Avenue, Sandusky, Ohio, 44870.

*INSURANCE PURCHASING POOL*

Ohio School Boards Association Workers' Compensation Group Rating Program

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 Program (the "Program") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

*Permanent Improvement Fund* - The permanent improvement fund is used to account for all transactions related to acquiring, constructing, or improving certain District properties.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operation.

*PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

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 an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, 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 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 year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2006.
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. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. The budget figures in the accompanying budgetary statements are more detailed than legal level of control.
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 year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
9. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and object level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all 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" on the basic financial statements.

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, federal agency securities, shares of common stock (see below) and a money market mutual fund. 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.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$31,657, which includes \$13,665 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its private-purpose trust fund. No public funds were used to acquire the stock. At June 30, 2006, the common stock value was \$8,604. The amount of common stock available for expenditure is reported in net assets available in trust for scholarships on the statement of fiduciary net assets.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

For presentation on the basic financial statements, 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 District's investment account at fiscal year-end is provided in Note 4.

**G. Inventory**

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

On the fund financials statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**H. Capital Assets**

General capital assets are those assets related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 25 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

**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.

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 June 30, 2006, 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 at least age fifty with at least ten years of service or any age with at least twenty years of service 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 June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**K. Accrued Liabilities and Long-Term Obligations**

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, and property tax revenue unavailable for appropriation, capital acquisition and budget stabilization. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. A fund balance designation is reported for additional amounts set-aside by the Board of Education for budget stabilization.

**M. Net Assets**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, net assets restricted by enabling legislation were \$113,906 in the statement of net assets.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a capital acquisition and a budget stabilization reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Restatement of Fund Balance and Net Assets**

The fund balance of the general fund and other nonmajor governmental funds have been restated at June 30, 2005 to account for interfund loans in the previous year that have been converted to transfers. This adjustment had no effect on the beginning balance of net assets.

The adjustments had the following effect on fund balance of the governmental activities as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance as previously reported	\$ 550,020	\$ 214,457	\$ 466,563	\$ 164,531	\$ 1,395,571
Adjustment to correct interfund activity	<u>(29,315)</u>	<u>-</u>	<u>-</u>	<u>29,315</u>	<u>-</u>
Restated fund balance as of July 1, 2005	<u>\$ 520,705</u>	<u>\$ 214,457</u>	<u>\$ 466,563</u>	<u>\$ 193,846</u>	<u>\$ 1,395,571</u>

The beginning net assets of the governmental activities have been restated due to a reappraisal of capital assets, and errors and accounting change reported in previous years. The adjustment for capital assets had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, July 1, 2005	\$ 18,632,745
Adjustment for capital assets	<u>(815,747)</u>
Restated net assets, July 1, 2005	<u>\$ 17,816,998</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**C. Deficit Fund Balances**

Fund balances at June 30, 2006, included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service Operation	\$ 25,554
Uniform School Supplies	5,245
Management Information Systems	201

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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 moneys 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 or deposit accounts including passbook accounts.

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**A. Cash on Hand**

At year-end, the District had \$300 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$415,629, exclusive of the \$723,207 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$319,820 of the District's bank balance of \$515,820 was exposed to custodial risk as discussed below, while \$196,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the District's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
Repurchase agreement	\$ 723,207	\$ 723,207	
STAR Ohio	73,840	73,840	
Money market mutual fund	733	733	
Common stock	8,604	8,604	
FNMA	99,563		\$ 99,563
FHLB	99,031	-	99,031
	<u>\$ 1,004,978</u>	<u>\$ 806,384</u>	<u>\$ 198,594</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

The weighted average maturity of investments is .13 years.

*Interest Rate Risk:* The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date, and requires the market value of securities for repurchase agreements to exceed the principal value by two percent and repurchase agreements cannot exceed 30 days. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy provides no additional requirements regarding interest rate risk beyond the requirements of state statute.

*Credit Risk:* The District investment in common stock was rated Aa3 by Moody's Investor Services. Standard Poor's has assigned Star Ohio an AAAM rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Ohio law requires no load money market mutual funds to have the highest credit rating issued by national raters. The Federal Home Loan Bank (FHLB) and Fannie Mae (FNMA) securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Repurchase agreement securities must be delivered into the custody of the treasurer or governing board or agent.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 723,207	71.96
STAR Ohio	73,840	7.35
Money market mutual fund	733	0.07
Common stock	8,604	0.86
FNMA	99,563	9.91
FHLB	99,031	9.85
	<u>\$ 1,004,978</u>	<u>100.00</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 415,629
Investments	1,004,978
Cash on hand	<u>300</u>
Total	<u>\$ 1,420,907</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,285,423
Private-purpose trust funds	93,092
Agency funds	<u>42,392</u>
Total	<u>\$ 1,420,907</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2006, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$ 7,173

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. 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 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Huron County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was

levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$214,320 in the general fund, \$29,247 in the debt service fund and \$4,723 in the classroom facilities maintenance fund (a non major special revenue fund). This amount has been recorded as revenue. The amount available as an advance at June 30, 2005, was \$514,042 in the general fund, \$70,211 in the debt service fund, and \$11,378 in the classroom facilities maintenance fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 98,155,150	92.51	\$ 100,549,560	93.99
Public utility personal	3,423,530	3.23	3,324,630	3.11
Tangible personal property	<u>4,518,413</u>	<u>4.26</u>	<u>3,105,291</u>	<u>2.90</u>
Total	<u>\$ 106,097,093</u>	<u>100.00</u>	<u>\$ 106,979,481</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 34.35		\$ 34.35	

**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 2006 was \$1,530,277.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities</b>	
Property taxes	\$ 2,291,011
Income taxes	551,827
Accounts	310
Accrued interest	2,954
Intergovernmental	<u>18,125</u>
Total	<u>\$ 2,864,227</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 9 - CAPITAL ASSETS**

A. The capital asset balances of the government activities have been restated due to a reappraisal of capital assets, and errors and omissions reported in previous years (See Note 3.B. for detail).

	Balance <u>06/30/05</u>	Adjustments	Restated Balance <u>07/01/05</u>
<b>Governmental Activities</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 351,793	\$ -	\$ 351,793
Total capital assets, not being depreciated	<u>351,793</u>	<u>-</u>	<u>351,793</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	83,443	639,749	723,192
Buildings and improvement	20,565,858	903,166	21,469,024
Furniture and equipment	997,963	1,797,059	2,795,022
Vehicles	<u>1,049,213</u>	<u>(146,045)</u>	<u>903,168</u>
Total capital assets, being depreciated	<u>22,696,477</u>	<u>3,193,929</u>	<u>25,890,406</u>
<i>Less: accumulated depreciation</i>	<u>(2,045,363)</u>	<u>(4,009,676)</u>	<u>(6,055,039)</u>
Governmental activities capital assets, net	<u>\$ 21,002,907</u>	<u>\$ (815,747)</u>	<u>\$ 20,187,160</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 9 - CAPITAL ASSETS – (Continued)**

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

	Restated Balance <u>07/01/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 351,793	\$ -	\$ -	\$ 351,793
Total capital assets, not being depreciated	<u>351,793</u>	<u>-</u>	<u>-</u>	<u>351,793</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	723,192			723,192
Buildings and improvements	21,469,024			21,469,024
Furniture and equipment	2,795,022	82,563	(19,673)	2,857,912
Vehicles	903,168	-	-	903,168
Total capital assets, being depreciated	<u>25,890,406</u>	<u>82,563</u>	<u>(19,673)</u>	<u>25,953,296</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(273,203)	(40,992)		(314,195)
Buildings and improvements	(3,518,372)	(536,401)		(4,054,773)
Furniture and equipment	(1,807,123)	(235,493)	5,607	(2,037,009)
Vehicles	(456,341)	(109,644)	-	(565,985)
Total accumulated depreciation	<u>(6,055,039)</u>	<u>(922,530)</u>	<u>5,607</u>	<u>(6,971,962)</u>
Governmental activities capital assets, net	<u>\$ 20,187,160</u>	<u>\$ (839,967)</u>	<u>\$ (14,066)</u>	<u>\$ 19,333,127</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 632,492
<u>Support Services:</u>	
Administration	4,023
Operations and maintenance	41,013
Pupil transportation	158,026
Extracurricular activities	31,005
Food service operations	<u>55,971</u>
Total depreciation expense	<u>\$ 922,530</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

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.

These lease agreements met 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. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of office equipment have been capitalized in the amount of \$56,939. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006, was \$42,705, leaving a current book value of \$14,234. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$12,174 in the general fund.

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, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	<u>\$ 13,762</u>
Total minimum lease payments	13,762
Less amount representing interest	<u>(578)</u>
Total	<u>\$ 13,184</u>



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
<u>General obligation bonds:</u>					
Series 1996, Energy conservation 5.20%, 12/01/06 maturity	\$ 58,900		\$ (58,900)		
Series 2000, Construction current interest bonds 5.537%, 12/01/23 maturity	2,970,000		(90,000)	\$ 2,880,000	\$ 95,000
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>69,429</u>	<u>\$ 18,661</u>	<u>-</u>	<u>88,090</u>	<u>-</u>
Total general obligation bonds	<u>3,194,329</u>	<u>18,661</u>	<u>(148,900)</u>	<u>3,064,090</u>	<u>95,000</u>
<u>Other Obligations:</u>					
Compensated absences	604,773	34,451	(85,603)	553,621	13,765
Capital lease obligation	<u>25,358</u>	<u>-</u>	<u>(12,174)</u>	<u>13,184</u>	<u>13,184</u>
Total other obligations	<u>630,131</u>	<u>34,451</u>	<u>(97,777)</u>	<u>566,805</u>	<u>26,949</u>
Total long-term obligations, governmental activities	<u>\$ 3,824,460</u>	<u>\$ 53,112</u>	<u>\$ (246,677)</u>	<u>\$ 3,630,895</u>	<u>\$ 121,949</u>

*Energy Conservation Bonds* - 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. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The source of repayment is general operating funds of the District. These bonds were retired during fiscal year 2006.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

General Obligation Bonds - 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. 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.

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).

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 statement of net assets at June 30, 2006, was \$96,000. Total accreted interest of \$88,090 has been included in the statement of net assets at June 30, 2006. 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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

B. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 95,000	\$ 159,223	\$ 254,223			
2008	100,000	154,323	254,323			
2009	110,000	148,993	258,993			
2010		146,188	146,188	\$ 50,223	\$ 89,777	\$ 140,000
2011		146,188	146,188	45,777	96,223	142,000
2012 - 2016	750,000	630,837	1,380,837			
2017 - 2021	1,045,000	381,656	1,426,656			
2022 - 2024	780,000	68,999	848,999	-	-	-
Total	<u>\$ 2,880,000</u>	<u>\$ 1,836,407</u>	<u>\$ 4,716,407</u>	<u>\$ 96,000</u>	<u>\$ 186,000</u>	<u>\$ 282,000</u>

**C. 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. In addition, the code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the district.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$6,380,246 (including available funds of \$156,193) and an unvoted debt margin of \$103,202, and energy conservation debt margin of \$928,814.

**NOTE 12 - 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 2006, the District has contracted with Indiana Insurance Company to provide general liability, fleet, building and contents coverage.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 12 - RISK MANAGEMENT – (Continued)**

The District had the following coverages in effect for fiscal year 2006:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	
Aggregate	2,000,000	
Fleet:		
Comprehensive	1,000,000	\$ 1,000
Collision	1,000,000	1,000
Building and contents	30,705,943	2,500

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 2005.

**B. Health Benefits**

The District joined together with other area school districts to form the Huron-Erie School Employees 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.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the

Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

For fiscal year 2006, 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 ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 13 - PENSION PLANS - (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$142,470, \$131,573, and \$111,523, respectively; 48.35% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$73,582 represents the unpaid contribution for fiscal year 2006.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 percent 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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 13 - PENSION PLANS - (Continued)**

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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004, were \$691,934, \$636,452, and \$617,213, respectively; 84.59% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$106,645 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal 2006 were \$4,386 made by the District and \$10,535 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$53,226 for fiscal year 2006.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$71,436 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 15 - 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 Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

- (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 year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (294,092)
Net adjustment for revenue accruals	(286,647)
Net adjustment for expenditure accruals	116,276
Net adjustment for other sources/uses	(33,049)
Adjustment for encumbrances	<u>28,044</u>
GAAP basis	<u><u>\$ (469,468)</u></u>

**NOTE 16 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 17 - 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, 2006, the reserve activity was as follows.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ (322,019)		\$ 19,552
Current year set-aside requirement	190,967	\$ 190,967	
Current year offsets		(44,190)	
Qualifying disbursements	<u>(133,349)</u>	<u>(64,951)</u>	<u>-</u>
 Total	 <u>\$ (264,401)</u>	 <u>\$ 81,826</u>	 <u>\$ 19,552</u>
Cash balance carried forward to FY 2007	<u>\$ (264,401)</u>	<u>\$ 81,826</u>	<u>\$ 19,552</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirements for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

Effective April 10, 2001, Am. Sub. Senate bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. Senate Bill 345 places special restrictions on the use of Bureau of Workers Compensation (BWC) Rebate money remaining in the budget stabilization reserve as of April 10, 2001, which is \$19,552 at June 30, 2006. The Board of Education has taken no action as to the disposition of these funds.

A schedule of the restricted assets at June 30, 2006 follows:

Amounts restricted for capital acquisition	\$ 81,826	
Amounts restricted for BWC refund	<u>19,552</u>	
 Total restricted assets	 <u>\$ 101,378</u>	

**NOTE 18 - DONOR RESTRICTED ENDOWMENTS**

The District's private-purpose trust funds consist of donor restricted endowments and realized and unrealized appreciation on investments and is reflected as held in trust for scholarships. State law permits the District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide scholarships each year.

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> <b>Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>			
<i>Passed through the Ohio Department of Education</i>			
Food Distribution Program	n/a	10.550	
National School Lunch Program	047746-LLP4-2005	10.555	15,937
	047746-LLP4-2006		115,262
Total - National School Lunch Program			<u>131,199</u>
Total U.S. Department of Agriculture			<u><b>131,199</b></u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>			
<i>Passed through the Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
<i>Passed through the Ohio Department of Education</i>			
Special Education - Grants to States	047746-6BSF-2006	84.027	321,829
<i>Passed through the Erie-Huron-Ottawa Educational Service Center</i>			
Special Education - Preschool Grants		84.173	8,759
Total - Special Education Cluster			<u>330,588</u>
<i>Passed through the Ohio Department of Education</i>			
Vocational Education - Basic Grants to States	20A0-2005	84.048	2,818
Title I Grants to Local Educational Agencies	047746-C1S1-2005	84.010	2,912
	047746-C1S1-2006		94,741
Total - Title I Grants to Local Educational Agencies			<u>97,653</u>
Safe and Drug Free Schools and Communities - State Grants	047746-DRS1-2005	84.186	
	047746-DRS1-2006		4,804
Total - Safe and Drug Free Schools and Communities - State Grants			<u>4,804</u>
State Grants for Innovative Programs	047746-C2S1-2005	84.298	
	047746-C2S1-2006		3,584
Total - State Grants for Innovative Programs			<u>3,584</u>
Education Technology State Grants	047746-TJS1-2005	84.318	
	047746-TJS1-2006		1,718
	047746-TJSL-2006		51,660
Total - Education Technology State Grants			<u>53,378</u>
Improving Teacher Quality State Grants	047746-TRS1-2005	84.367	6,702
	047746-TRS1-2006		46,055
Total - Improving Teacher Quality State Grants			<u>52,757</u>
Total U.S. Department of Education			<u><b>545,582</b></u>
<b>TOTALS</b>			<u><b>\$676,781</b></u>

*The accompanying notes are an integral part of this schedule.*

<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$35,055		\$35,055
	15,937	
	115,262	
	131,199	
<b>35,055</b>	<b>131,199</b>	<b>35,055</b>
	321,829	
	9,474	
	331,303	
	2,516	
	198	
	94,166	
	94,364	
	70	
	4,804	
	4,874	
	3,740	
	3,584	
	7,324	
	1,748	
	1,718	
	50,958	
	54,424	
	46,055	
	46,055	
	<b>540,860</b>	
<b>\$35,055</b>	<b>\$672,059</b>	<b>\$35,055</b>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION PROGRAMS**

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

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

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Western Reserve Local School District  
Huron County  
3765 U.S. Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 10, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 10, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

May 10, 2007





# Mary Taylor, CPA

## Auditor of State

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

Western Reserve Local School District  
Huron County  
3765 U.S. Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

#### Compliance

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

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

As described in items 2006-001 and 2006-002 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding activities allowed or unallowed, allowable cost/cost principle, and period of availability of federal funds applying to its Special Education - Grants to States Program. Compliance with those requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, the Western Reserve Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

#### **Internal Control Over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

May 10, 2007

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2006-001
<b>CFDA Title and Number</b>	84.027 – Special Education-Grants to States
<b>Federal Award Number / Year</b>	047746-6BSF-2006
<b>Federal Agency</b>	US Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Activities Allowed or Unallowed and Allowable Cost/Cost Principle – Noncompliance Finding and Questioned Costs**

2CFR Part 225 Appendix A subsection C.3.a states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Ohio Department of Education provided the District with federal funds from the Special Education grant for support of services for children with diagnosed delays and disabilities.

We noted five disbursements, totaling \$37,037, in which the Special Education grant was charged for a Gifted Coordinator and a Gifted Teacher as well as Curriculum Director services provided through the Erie-Huron-Ottawa Educational Service Center. These expenditures are not consistent with the Special Education grant allowable purposes.

Total questioned costs for expenditures for unallowable services are thirty seven thousand and thirty seven dollars (\$37,037) of the \$321,829 spent on the Special Education grant during 2006. We recommend the District use grant funds only for expenditures allowed by this Federal program.

<b>Finding Number</b>	2006-002
<b>CFDA Title and Number</b>	84.027 – Special Education-Grants to States
<b>Federal Award Number / Year</b>	047746-6BSF-2006
<b>Federal Agency</b>	US Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Period of Availability of Federal Funds– Noncompliance Finding and Questioned Costs**

34 CFR 74.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The Ohio Department of Education (ODE) 2006 Continuous Comprehensive Improvement Planning (CCIP) Consolidated Application for the Special Education grant defined the available period as July 1, 2005 to June 30, 2006. 34 CFR 76.707 states that an obligation for personal services by an employee of the State or subgrantee occurs when the services are performed.

The District charged \$66,985 for services performed prior to July 1, 2005, to their 2006 Special Education grant. These costs represented excess costs the Erie-Huron-Ottawa Educational Service Center assessed the District for services performed on behalf of the District. There were no pre-award costs authorized for the grant.

Total questioned costs for expenditures outside of the period of availability are sixty six thousand nine hundred and eighty five dollars (\$66,985) of the \$321,829 spent on the Special Education grant during 2006. We recommend the District use grant funds only for expenditures obligated during the period of availability.

**Officials' Responses:** The District has included its responses to the above findings and questioned costs in the Corrective Action Plan.

**WESTERN RESERVE LOCAL SCHOOLS  
HURON COUNTY**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2006  
FINDINGS AND QUESTIONED COSTS**

<b>Finding Number</b>	<b>Responsible Person</b>	<b>Action</b>
2006-001	Brett Robson Treasurer	Item corrected after prior year's audit, however this was after the start of the current fiscal year. Gifted and curriculum costs for services received from the County ESC are now appropriately charged to the general fund.
2006-002	Brett Robson Treasurer	The treasurer will perform a secondary review of all expenses charged to ensure monies are spent in the appropriate period.



**Mary Taylor, CPA**  
Auditor of State

**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  
JUNE 5, 2007**