



**Auditor of State  
Betty Montgomery**



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

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**Auditor of State  
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**INDEPENDENT ACCOUNTANT'S 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, (the District), as of and for the year ended June 30, 2004, which collectively comprise District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

As described in Note 3, during the year ended June 30, 2004, the District modified the capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2005, 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 the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions 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.



**Betty Montgomery**  
Auditor of State

May 23, 2005

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$413,208 which represents a 2.10 percent decrease from 2003.
- General revenues accounted for \$10,441,708 in revenue or 88.49 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,358,379 or 11.51 percent of total revenues of \$11,800,087.
- The District had \$12,213,295 in expenses related to governmental activities; \$1,358,379 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,441,708 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, and classroom facilities fund. The general fund had \$10,150,247 in revenues and \$9,971,246 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$149,001 from \$703,058 to \$852,059.
- The debt service fund had revenues of \$328,648 and expenses of \$325,019 increasing the fund balance by \$3,629 from \$233,941 in 2003 to \$237,570 in 2004.
- The classroom facilities fund balance decreased \$733,755 from \$1,074,126 in 2003 to \$340,371 in 2004.

**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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 classroom facilities 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 account, 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.

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



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

Net Assets Governmental Activities	2004
<b>Assets</b>	
Current and other assets	\$ 4,842,738
Capital assets, net	<u>21,411,699</u>
<i>Total assets</i>	<u>26,254,437</u>
 <b>Liabilities</b>	
Current liabilities	3,115,791
Long-term liabilities	<u>3,899,104</u>
<i>Total liabilities</i>	<u>7,014,895</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	18,106,300
Restricted	848,191
Unrestricted	<u>285,051</u>
<i>Total net assets</i>	<u>\$ 19,239,542</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$19,239,542. Of this total, \$285,051 is unrestricted in use.

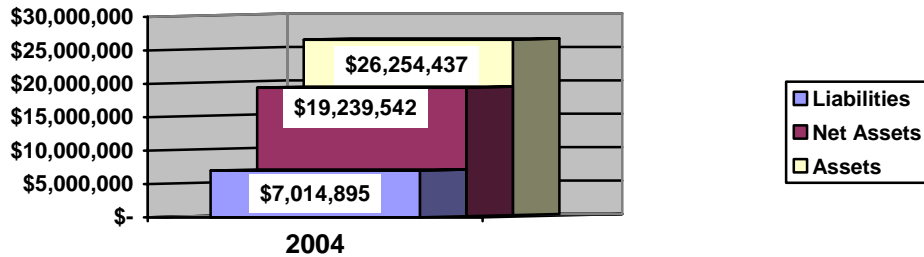
At fiscal year-end, capital assets represented 81.55 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$18,106,300. These capital 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, \$848,191, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$285,051 may be used to meet the District's ongoing obligations to the students and creditors.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets Governmental Activities	
	2004
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$ 742,033
Operating grants and contributions	587,196
Capital grants and contributions	29,150
General revenues:	
Taxes	3,923,130
Grants and entitlements	6,311,535
Investment earnings	64,480
Other	142,563
<i>Total revenues</i>	<i>11,800,087</i>
<b>Expenses</b>	
Program expenses:	
Instruction:	
Regular	5,156,586
Special	1,168,229
Vocational	182,817
Other	76,595

(Continued)

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Change in Net Assets (Continued)  
Governmental Activities

	2004
Support services:	
Pupil	330,352
Instructional staff	934,695
Board of education	93,706
Administration	1,006,822
Fiscal	333,564
Operations and maintenance	1,046,336
Pupil transportation	735,956
Central	802
Operations of non-instructional services	6,722
Extracurricular activities	494,678
Food service operations	438,645
Interest and fiscal charges	206,790
<i>Total expenses</i>	12,213,295
<i>Decrease in net assets</i>	\$ (413,208)

**Governmental Activities**

Net assets of the District's governmental activities decreased by \$413,208. Total governmental expenses of \$12,213,295 were offset by program revenues of \$1,358,379 and general revenues of \$10,441,708. Program revenues supported 11.12 percent of the total governmental expenses. The increase in net assets can mainly be attributed to an increase in capital assets and a decrease in long term liabilities from fiscal year 2003.

The primary sources of revenue for governmental activities are derived from property and income taxes, and grants and entitlements. These revenue sources represent 86.73 percent of total governmental revenue.

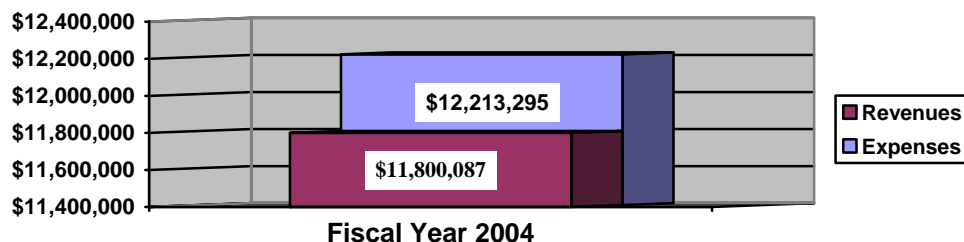
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,584,227 or 53.91 percent of total governmental expenses for fiscal 2004.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**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. Comparisons to 2003 have not been presented since they are not available.

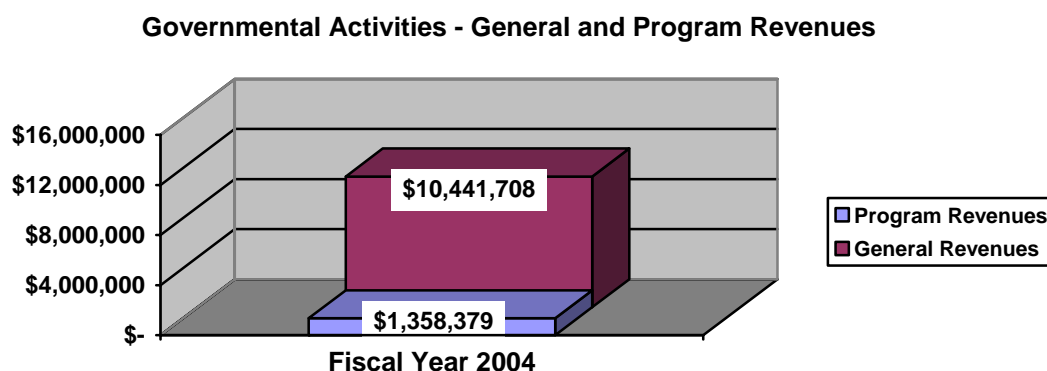
Governmental Activities		
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 5,156,586	\$ 4,818,870
Special	1,168,229	960,274
Vocational	182,817	175,442
Other	76,595	76,595
Support services:		
Pupil	330,352	327,538
Instructional staff	934,695	798,493
Board of education	93,706	93,706
Administration	1,006,822	1,004,140
Fiscal	333,564	333,564
Operations and maintenance	1,046,336	1,046,336
Pupil transportation	735,956	735,956
Central	802	(55)
Operations of non-instructional services	6,722	6,722
Extracurricular activities	494,678	182,781
Food service operations	438,645	87,764
Interest and fiscal charges	206,790	206,790
<i>Total expenses</i>	<u>\$ 12,213,295</u>	<u>\$ 10,854,916</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

The dependence upon tax and other general revenues for governmental activities is apparent, 91.60 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.88 percent. The District's taxpayers along with the State foundation revenues, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,754,539, which is lower than last year's total of \$2,477,353. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$ 852,059	\$ 703,058	\$ 149,001
Debt Service	237,570	233,941	3,629
Classroom Facilities	340,371	1,074,126	(733,755)
Other Governmental	324,539	466,228	(141,689)
<i>Total</i>	<u>\$ 1,754,539</u>	<u>\$ 2,477,353</u>	<u>\$ (722,814)</u>

General Fund

The District's general fund balance increased by \$149,001 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). Revenues exceed expenses for fiscal year 2004 by \$179,001 before a \$30,000 transfer to non major funds.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Taxes	\$ 3,577,822	\$ 3,360,613	\$ 217,209	6.46%
Tuition	118,744	-	118,744	100.00%
Earnings on investments	16,975	5,645	11,330	200.71%
Intergovernmental	6,272,647	6,000,490	272,157	4.54%
Other revenues	164,059	61,200	102,859	168.07%
<i>Total</i>	<u>\$ 10,150,247</u>	<u>\$ 9,427,948</u>	<u>\$ 722,299</u>	7.66%
<b>Expenditures</b>				
Instruction	\$ 5,732,893	\$ 5,446,456	\$ 286,437	5.26%
Support services	4,059,001	3,664,078	394,923	10.78%
Non-instructional services	6,722	-	6,722	100.00%
Extracurricular activities	155,916	151,611	4,305	2.84%
Debt service	16,714	18,389	(1,675)	-9.11%
<i>Total</i>	<u>\$ 9,971,246</u>	<u>\$ 9,280,534</u>	<u>\$ 690,712</u>	7.44%

During 2004, the District began posting tuition revenue from the State which is deducted for open enrollment to other districts. The increase in earnings or investments is due to the recording of interest not recorded in the previous year. Tax revenue increased due to increases in tax valuations and intergovernmental revenues went up due to more grants and State aid received in 2004. The increase in instruction and support services is due to increases in wages and benefits and increased expenses recorded for tuition deducted for students attending other districts under open enrollment. .

Debt Service Fund

The District's debt service fund balance increased \$3,629. The increase in fund balance can be attributed to the decrease in debt service payments.

Classroom Facilities Fund

The District's classroom facilities fund balance decreased by \$733,755. The decrease in fund balance can be attributed to a decrease in revenues since all grant funds were received in the previous year. The expenditures are final payments on the OSFC project.

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.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,500,000 and final budgeted revenues and other financing sources were \$9,750,381. Actual revenues and other financing sources for fiscal 2004 was \$9,987,185. This represents a \$236,804 increase over final budgeted revenues. The increase is primarily due to a conservative original budgeting of resources.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

General fund original appropriations (appropriated expenditures including other financing uses) were \$9,900,000 and the final appropriations were \$10,429,119. The actual budget basis expenditures for fiscal year 2004 totaled \$10,590,877, which is \$161,758 greater than the final appropriations.

**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal 2004, the District had \$21,411,699 invested in land, and improvements, buildings and improvements, furniture and equipment and vehicles. See Note 9 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

Capital Assets at June 30 (Net of Depreciation) Governmental Activities		
	2004	2003
Land	\$ 351,793	\$ 351,793
Land improvements	59,792	62,292
Building and improvements	19,806,220	19,744,890
Furniture and equipment	704,090	767,022
Vehicles	489,804	331,239
<i>Total</i>	\$ 21,411,699	\$ 21,257,236

The overall increase in capital assets of \$154,463 is due to capital outlays of \$753,503 exceeding depreciation expense of \$599,040 in the fiscal year.

Debt Administration

At June 30, 2004, the District had \$3,151,000 in general obligation bonds and \$117,800 in energy conservation notes outstanding. Of this total, \$143,900 is due within one year and \$3,124,000 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.

Outstanding Debt, at Year End		
	Governmental Activities 2004	Governmental Activities 2003
General obligation bonds	\$ 3,151,000	\$ 3,231,000
Accreted interest	52,659	37,590
Energy conservation bonds	117,800	176,700
<i>Total</i>	\$ 3,321,459	\$ 3,445,290

At June 30, 2004, the District's overall legal debt margin was \$6,399,164, and an unvoted debt margin of \$103,879.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Current Financial Related Activities**

The District has continued to maintain the highest standards of service to our students, parents and community. The District is always presented with challenges and opportunities, most recently being the completion of our new elementary building and the remodeling of our middle/high school building projects. Our 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 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 statute restricts 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 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 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. Route 20 East, Collins, Ohio 44826.



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	Governmental Activities
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 1,861,903
Receivables:	
Taxes	2,804,541
Accounts	39,505
Intergovernmental	57,129
Prepayments	75,500
Materials and supplies inventory	4,160
Capital assets:	
Land	351,793
Depreciable capital assets, net	21,059,906
Capital assets, net	21,411,699
<i>Total assets</i>	26,254,437
<b>Liabilities:</b>	
Accounts payable	4,158
Accrued wages and benefits	915,883
Pension obligation payable	200,668
Intergovernmental payable	334,203
Deferred revenue	1,645,259
Accrued interest payable	15,620
Long-term liabilities:	
Due within one year	172,830
Due in more than one year	3,726,274
<i>Total liabilities</i>	7,014,895
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	18,106,300
Restricted for:	
Capital projects	479,533
Debt service	175,802
Other purposes	192,856
Unrestricted	285,051
<i>Total net assets</i>	\$ 19,239,542

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, 2004**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular	\$ 5,156,586	\$ 188,319	\$ 120,247	\$ 29,150	\$ (4,818,870)
Special	1,168,229	-	207,955	-	(960,274)
Vocational	182,817	-	7,375	-	(175,442)
Adult/continuing education	76,595	-	-	-	(76,595)
Support services:					
Pupil	330,352	-	2,814	-	(327,538)
Instructional staff	934,695	-	136,202	-	(798,493)
Board of education	93,706	-	-	-	(93,706)
Administration	1,006,822	-	2,682	-	(1,004,140)
Fiscal	333,564	-	-	-	(333,564)
Operations and maintenance	1,046,336	-	-	-	(1,046,336)
Pupil transportation	735,956	-	-	-	(735,956)
Central	802	-	857	-	55
Operation of non-instructional	6,722	-	-	-	(6,722)
Extracurricular activities	494,678	311,897	-	-	(182,781)
Food service operations	438,645	241,817	109,064	-	(87,764)
Interest and fiscal charges	206,790	-	-	-	(206,790)
<i>Total governmental activities</i>	<u>\$ 12,213,295</u>	<u>\$ 742,033</u>	<u>\$ 587,196</u>	<u>\$ 29,150</u>	<u>(10,854,916)</u>

**General Revenues:**

Property taxes levied for:

General purposes	3,580,116
Special revenue	48,555
Debt service	294,459
Grants and entitlements not restricted to specific programs	6,311,535
Investment earnings	64,480
Miscellaneous	142,563
<i>Total general revenues</i>	<u>10,441,708</u>
<i>Change in net assets</i>	(413,208)
Net assets at beginning of year (restated)	19,652,750
<i>Net assets at end of year</i>	<u>\$ 19,239,542</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and cash equivalents	\$ 647,841	\$ 169,447	\$ 642,893	\$ 382,170	\$ 1,842,351
Receivables:					
Taxes	2,504,666	257,667	-	42,208	2,804,541
Accounts	39,505	-	-	-	39,505
Intergovernmental	-	-	-	57,129	57,129
Due from other funds	51,516	-	-	-	51,516
Loans to other funds	29,315	-	-	-	29,315
Prepayments	75,500	-	-	-	75,500
Materials and supplies inventory	-	-	-	4,160	4,160
Restricted assets:					
Equity in pooled cash and cash equivalents	19,552	-	-	-	19,552
<b>Total assets</b>	<b>\$ 3,367,895</b>	<b>\$ 427,114</b>	<b>\$ 642,893</b>	<b>\$ 485,667</b>	<b>\$ 4,923,569</b>
<b>Liabilities:</b>					
Accounts payable	\$ 1,296	\$ -	\$ -	\$ 2,862	\$ 4,158
Accrued wages and benefits	874,882	-	-	41,001	915,883
Compensated absences payable	1,345	-	-	-	1,345
Pension obligation payable	125,782	-	-	1,993	127,775
Intergovernmental payable	29,584	-	302,522	2,097	334,203
Due to other funds	-	-	-	51,516	51,516
Loans from other funds	-	-	-	29,315	29,315
Deferred revenue	1,482,947	189,544	-	32,344	1,704,835
<b>Total liabilities</b>	<b>2,515,836</b>	<b>189,544</b>	<b>302,522</b>	<b>161,128</b>	<b>3,169,030</b>
<b>Fund Balances:</b>					
Reserved for encumbrances	22,427	-	-	10,894	33,321
Reserved for materials and supplies inventory	-	-	-	4,160	4,160
Reserved for prepayments	75,500	-	-	-	75,500
Reserved for property tax unavailable for appropriation	497,965	68,123	-	10,989	577,077
Reserved for budget stabilization	19,552	-	-	-	19,552
Reserved for loans	29,315	-	-	-	29,315
Unreserved:					
Designation for budget stabilization	305,448	-	-	-	305,448
Undesignated, reported in:					
General fund	(98,148)	-	-	-	(98,148)
Special revenue funds	-	-	-	159,334	159,334
Debt service fund	-	169,447	-	-	169,447
Capital projects funds	-	-	340,371	139,162	479,533
<b>Total fund balances</b>	<b>852,059</b>	<b>237,570</b>	<b>340,371</b>	<b>324,539</b>	<b>1,754,539</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,367,895</b>	<b>\$ 427,114</b>	<b>\$ 642,893</b>	<b>\$ 485,667</b>	<b>\$ 4,923,569</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, 2004

<b>Total governmental fund balances</b>		\$ 1,754,539
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.		21,411,699
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 59,576	59,576
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	539,701	
Pension obligation payable	72,893	
General obligation bonds payable	3,321,459	
Capital lease obligation	36,599	
Accrued interest payable	15,620	
		(3,986,272)
<i>Net assets of governmental activities</i>		\$ 19,239,542

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, 2004**

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes	\$ 3,577,822	\$ 294,965	\$ -	\$ 48,642	\$ 3,921,429
Tuition	118,744	-	-	-	118,744
Earnings on investments	16,975	-	41,414	6,091	64,480
Charges for services	-	-	-	241,817	241,817
Extracurricular	150	-	-	311,697	311,847
Classroom materials and fees	-	-	-	46,997	46,997
Other local revenues	163,909	-	-	200	164,109
Intergovernmental - Intermediate	73,197	-	-	6,703	79,900
Intergovernmental - State	6,199,090	33,683	-	135,878	6,368,651
Intergovernmental - Federal	360	-	-	486,211	486,571
<i>Total revenue</i>	<u>10,150,247</u>	<u>328,648</u>	<u>41,414</u>	<u>1,284,236</u>	<u>11,804,545</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	4,563,496	-	-	267,149	4,830,645
Special	917,851	-	-	238,997	1,156,848
Vocational	174,951	-	-	7,866	182,817
Other	76,595	-	-	-	76,595
Support services:					
Pupil	327,596	-	-	2,814	330,410
Instructional staff	758,764	-	-	175,064	933,828
Board of education	78,840	-	-	-	78,840
Administration	724,742	-	302,522	2,889	1,030,153
Fiscal	331,586	-	-	-	331,586
Operations and maintenance	1,005,001	-	472,647	63,270	1,540,918
Pupil transportation	832,472	-	-	-	832,472
Central	-	-	-	802	802
Operation of non-instructional services	6,722	-	-	-	6,722
Extracurricular activities	155,916	-	-	318,682	474,598
Food service operations	-	-	-	378,495	378,495
Debt service:					
Principal retirement	13,163	138,900	-	-	152,063
Interest and fiscal charges	3,551	186,119	-	979	190,649
<i>Total expenditures</i>	<u>9,971,246</u>	<u>325,019</u>	<u>775,169</u>	<u>1,457,007</u>	<u>12,528,441</u>
<i>Excess of revenues under expenditures</i>	<u>179,001</u>	<u>3,629</u>	<u>(733,755)</u>	<u>(172,771)</u>	<u>(723,896)</u>
<b>Other financing sources (uses):</b>					
Proceeds from sale of capital assets	-	-	-	1,082	1,082
Transfers in	-	-	-	30,000	30,000
Transfers (out)	(30,000)	-	-	-	(30,000)
<i>Total other financing sources (uses)</i>	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>31,082</u>	<u>1,082</u>
<i>Net change in fund balances</i>	<u>149,001</u>	<u>3,629</u>	<u>(733,755)</u>	<u>(141,689)</u>	<u>(722,814)</u>
Fund balances at beginning of year (restated)	703,058	233,941	1,074,126	466,228	2,477,353
<i>Fund balances at end of year</i>	<u>\$ 852,059</u>	<u>\$ 237,570</u>	<u>\$ 340,371</u>	<u>\$ 324,539</u>	<u>\$ 1,754,539</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, 2004

**Net change in fund balances - total governmental funds** \$ (722,814)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays, \$753,503, exceed depreciation expense, \$599,040, in the current period. 154,463

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (5,540)

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. 152,063

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. (16,141)

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 24,761

*Change in net assets of governmental activities* \$ (413,208)

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 COMPARISON (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
From local sources:				
Taxes	\$ 3,137,601	\$ 3,220,849	\$ 3,254,077	\$ 33,228
Tuition	112,113	115,067	118,744	3,677
Earnings on investments	16,410	16,843	16,975	132
Extracurricular	145	149	150	1
Other local revenues	56,332	57,816	58,271	455
Intergovernmental - Intermediate	70,761	72,626	73,197	571
Intergovernmental - State	5,848,832	6,002,430	6,199,090	196,660
Intergovernmental - Federal	348	357	360	3
<i>Total revenue</i>	<u>9,242,542</u>	<u>9,486,137</u>	<u>9,720,864</u>	<u>234,727</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,262,115	4,489,909	4,650,752	(160,843)
Special	902,964	951,224	951,371	(147)
Vocational	168,136	177,123	177,150	(27)
Other	78,924	83,142	83,155	(13)
Support services:				
Pupil	305,399	321,721	321,771	(50)
Instructional staff	723,155	761,805	761,922	(117)
Board of education	104,097	109,661	109,678	(17)
Administration	724,161	762,864	762,982	(118)
Fiscal	377,721	397,909	397,970	(61)
Operations and maintenance	1,071,891	1,129,180	1,129,354	(174)
Pupil transportation	805,523	848,575	848,706	(131)
Operation of non-instructional services	6,380	6,721	6,722	(1)
Extracurricular activities	148,499	156,436	156,460	(24)
<i>Total expenditures</i>	<u>9,678,965</u>	<u>10,196,270</u>	<u>10,357,993</u>	<u>(161,723)</u>
<i>Excess of revenues over (under) expenditures</i>	(436,423)	(710,133)	(637,129)	73,004
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	64,114	65,804	66,321	517
Transfers in	193,344	198,440	200,000	1,560
Transfers (out)	(218,404)	(230,077)	(230,112)	(35)
Refund of prior year receipts	(2,631)	(2,772)	(2,772)	-
<i>Total other financing sources (uses)</i>	<u>36,423</u>	<u>31,395</u>	<u>33,437</u>	<u>2,042</u>
<i>Net change in fund balance</i>	(400,000)	(678,738)	(603,692)	75,046
<i>Fund balance at beginning of year</i>	1,177,605	1,177,605	1,177,605	-
Prior year encumbrances appropriated	121,273	121,273	121,273	-
<i>Fund balance at end of year</i>	<u>\$ 898,878</u>	<u>\$ 620,140</u>	<u>\$ 695,186</u>	<u>\$ 75,046</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, 2004

	Private-Purpose Trust	
	Scholarship	Agency
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 70,077	\$ 29,268
Investments	10,314	-
<i>Total assets</i>	80,391	\$ 29,268
<b>Liabilities:</b>		
Accounts payable	-	\$ 705
Due to students	-	28,563
<i>Total liabilities</i>	-	\$ 29,268
<b>Net Assets:</b>		
Held in trust for scholarships	80,391	
<i>Total net assets</i>	\$ 80,391	

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, 2004

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$ 489
Gifts and contributions	<u>14,512</u>
Total additions	<u>15,001</u>
<b>Deductions:</b>	
Scholarships awarded	<u>4,550</u>
Change in net assets	10,451
<b>Net assets at beginning of year</b>	<u>69,940</u>
<b>Net assets at end of year</b>	<u><u>\$ 80,391</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District ranks as the 403<sup>rd</sup> largest by total enrollment among the 613 public school districts in the state. It currently operates 4 instructional facilities. The District employs 60 non-certified and 101 certified employees to provide services to approximately 1,380 students in grades K through 12 and various community groups.

**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 organizations' 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, 2004  
(Continued)

JOINT VENTURE WITHOUT EQUITY INTEREST

Northern Ohio Educational Computer Association (NOECA)

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

JOINTLY GOVERNED ORGANIZATIONS

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 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 Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

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

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 proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose; or (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 activities.

**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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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.

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

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.

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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, 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, 2004, but which were levied to finance fiscal year 2005 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.

**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 2004 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'

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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 2004.
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 and function 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.
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.
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, 2004, 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.



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

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 2004 amounted to \$16,975 which includes \$6,790 assigned from other 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, 2004, the common stock value was \$10,314. 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.

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. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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**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. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$2,500. The change in capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see note 9). 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 Estimated Lives
Land improvements	5 - 25 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**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, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as

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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, 2004, 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.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment 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, property tax revenue unavailable for appropriation, loans to other funds, 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 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

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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.

**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.

**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 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 basis financial statements.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Debt Service	Classroom Facilities	Nonmajor	Total
Fund balance June 30, 2003	\$ 691,803	\$ 233,941	\$ 1,074,126	\$ 504,084	\$ 2,503,954
Fund reclassifications	-	-	-	(37,856)	(37,856)
Implementation of GASB Interpretation No. 6	11,255	-	-	-	11,255
Restated fund balance, June 30, 2003	<u>\$ 703,058</u>	<u>\$ 233,941</u>	<u>\$ 1,074,126</u>	<u>\$ 466,228</u>	<u>\$ 2,477,353</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

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	Total
Restated fund balance, June 30, 2003	\$ 2,477,353
GASB 34 adjustments:	
Long-term (deferred) assets	65,116
Capital assets	21,257,236
Accrued interest payable	(14,548)
Pension obligation	(78,774)
Long-term liabilities	(4,053,633)
Governmental activities net assets, June 30, 2003	\$ 19,652,750

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
Nonmajor Funds	
Food Service Operation	\$ 45,974
Mentor Grant	27
SchoolNet	5
Summer Intervention	94
Miscellaneous State Grants	2,756
Title VI-B	6,844
Title I	352
Reducing Class Size	8,708

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 results from adjustments for accrued liabilities.

**C. Deficit Cash Balances**

Fund balances at June 30, 2004 included the following individual cash deficits:

	Deficit
Nonmajor Funds	
Title VI-B	\$ 10,272
Title I	30,503
Title VI	6,612
Reducing Class Size	3,225
Miscellaneous Federal Grants	904

These funds did not comply 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, see Note 5 for these transfers.

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**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 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;

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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 Treasury Asset Reserve of Ohio (STAR Ohio);

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

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$321,127 and the bank balance was \$447,081. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$347,081 was covered by collateral held by third party trustees, pursuant to section 135.18 Ohio Revised Code; these securities not being in the name of the District.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio and money market mutual funds are not categorized as they are not evidenced by securities that exist in physical or book entry form.



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	Category 3	Reported Amount	Fair Value
Repurchase agreements	\$ 1,570,651	\$ 1,570,651	\$ 1,570,651
Common stock	10,020	10,020	10,020
	<u>\$ 1,580,671</u>		
Money market mutual fund		294	294
Investment in STAR Ohio		69,470	69,470
<i>Total investments</i>		<u>\$ 1,650,435</u>	<u>\$ 1,650,435</u>

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 1,961,248	\$ 10,314
Investments of the cash management pool:		
Repurchase agreement	(1,570,651)	1,570,651
Investment in STAR Ohio	(69,470)	69,470
GASB Statement No. 3	<u>\$ 321,127</u>	<u>\$ 1,650,435</u>

**5. INTERFUND TRANSACTIONS**

**A.** Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual long-term loans to/from other funds:

<u>Loan Receivable Fund</u>	<u>Loan Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 29,315</u>

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 not 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, 2004 are reported on the statement of net assets.

**B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General Fund	<u>\$ 30,000</u>

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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- C. Interfund balances at June 30, 2004, as reported on the fund statements, consist of the following amounts due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 51,516

Amounts due to/from other funds were utilized to cover negative cash balances in certain funds (See Note 3.C.). Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

**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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. 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

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remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2004 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, 2004 was \$497,965 in the general fund, \$68,123 in the debt service fund and \$10,989 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, 2003 was \$198,117 in the general fund, \$28,962 in the debt service fund, and \$4,815 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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 81,521,500	89.79%	\$ 95,522,080	91.95%
Public utility personal	3,453,850	6.41%	3,467,520	3.34%
Tangible personal property	5,815,150	3.80%	4,889,030	4.71%
Total	<u>\$ 90,790,500</u>	<u>100.00%</u>	<u>\$ 103,878,630</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 31.10		\$ 31.10	

**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 percent 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 percent 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 2004 was \$1,359,440.

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**8. RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), 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:

Governmental Activities:	
Property tax	\$ 2,280,787
Income tax	523,754
Accounts	39,505
Intergovernmental	57,129
<i>Total</i>	<u><u>\$ 2,901,175</u></u>

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

**9. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy, to include land values not reported in the prior year, to correct for errors and omissions in the amounts previously reported for vehicles, and to record accumulated depreciation. See Note 2.H. for detail:

	Balance 6/30/03	Adjustments	Restated Balance 6/30/03
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ -	\$ 351,793	\$ 351,793
<i>Total capital assets, not being depreciated</i>	-	351,793	351,793
Capital assets, being depreciated:			
Land improvements	93,951	(10,508)	83,443
Buildings and improvements	17,696,459	2,396,752	20,093,211
Furniture and equipment	2,064,010	(1,283,716)	780,294
Vehicles	825,098	29,145	854,243
<i>Total capital assets, being depreciated</i>	20,679,518	1,131,673	21,811,191
Less: accumulated depreciation:	-	(905,748)	(905,748)
<i>Governmental activities capital assets, net</i>	\$ 20,679,518	\$ 577,718	\$ 21,257,236

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:**

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 351,793	\$ -	\$ -	\$ 351,793
<i>Total capital assets, not being depreciated</i>	<u>351,793</u>	<u>-</u>	<u>-</u>	<u>351,793</u>
Capital assets, being depreciated:				
Land improvements	83,443	-	-	83,443
Buildings and improvements	20,093,211	472,647	-	20,565,858
Furniture and equipment	780,294	40,172	-	820,466
Vehicles	854,243	240,684	(111,393)	983,534
<i>Total capital assets, being depreciated</i>	<u>21,811,191</u>	<u>753,503</u>	<u>(111,393)</u>	<u>22,453,301</u>
Less: accumulated depreciation				
Land improvements	(21,151)	(2,500)	-	(23,651)
Buildings and improvements	(348,321)	(411,317)	-	(759,638)
Furniture and equipment	(13,272)	(103,104)	-	(116,376)
Vehicles	(523,004)	(82,119)	111,393	(493,730)
<i>Total accumulated depreciation</i>	<u>(905,748)</u>	<u>(599,040)</u>	<u>111,393</u>	<u>(1,393,395)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 21,257,236</u>	<u>\$ 154,463</u>	<u>\$ -</u>	<u>\$ 21,411,699</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 352,940
Special	3,210
Support Services:	
Board of Education	14,927
Administration	1,266
Operations and maintenance	5,772
Pupil transportation	143,552
Extracurricular activities	20,190
Food service operations	57,183
<i>Total depreciation expense</i>	<u>\$ 599,040</u>

**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.

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

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 \$63,745. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$13,163 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, 2004.

Fiscal Year Ending June 30,	Amount
2005	\$ 13,762
2006	13,762
2007	13,762
<i>Total minimum lease payments</i>	41,286
Less amount representing interest	(4,687)
<i>Total</i>	\$ 36,599

**11. LONG-TERM OBLIGATIONS**

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$13,741 from \$513,266 to \$527,007 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of \$69,598 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$55,857 from \$4,077,916 to \$4,022,059. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	Restated Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>					
<u>General obligation bonds:</u>					
Series 1996, Energy conservation 5.20%, 12/01/06 maturity	\$ 176,700	\$ -	\$ (58,900)	\$ 117,800	\$ 58,900
Series 2000, Construction current interest bonds 5.537%, 12/01/23 maturity	3,135,000	-	(80,000)	3,055,000	85,000
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 accreted interest	37,590	15,069	-	52,659	-
<i>Total general obligation bonds</i>	<u>3,445,290</u>	<u>15,069</u>	<u>(138,900)</u>	<u>3,321,459</u>	<u>143,900</u>
<u>Other Obligations:</u>					
Compensated absences	527,007	54,499	(40,460)	541,046	17,689
Capital lease obligation	49,762	-	(13,163)	36,599	11,241
<i>Total other obligations</i>	<u>576,769</u>	<u>54,499</u>	<u>(53,623)</u>	<u>577,645</u>	<u>28,930</u>
<i>Total long-term obligations, governmental activities</i>	<u>\$ 4,022,059</u>	<u>\$ 69,568</u>	<u>\$ (192,523)</u>	<u>\$ 3,899,104</u>	<u>\$ 172,830</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.

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). OSFC will make quarterly disbursements to the District as the

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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project is completed. As of June 30, 2003, the total estimated cost of the building project is \$19,255,157, of which OSFC will pay \$15,894,157.

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

This issue is comprised of both current interest bonds, par value \$3,265,000, and capital appreciation bonds, par value \$282,000. The average interest rate on the current interest bonds is 5.537 percent. The capital appreciation bonds mature on December 1, 2009 (effective interest 10.736 percent) and December 1, 2010 (effective interest 10.736 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the general long-term obligations account group at June 30, 2004 was \$96,000. Total accreted interest of \$52,659 has been included in the general long-term obligations account group at June 30, 2004. 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.

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30	General Obligation					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 85,000	\$ 168,114	\$ 253,114	\$ -	\$ -	\$ -
2006	90,000	163,825	253,825	-	-	-
2007	95,000	159,223	254,223	-	-	-
2008	100,000	154,323	254,323	-	-	-
2009	110,000	148,993	258,993	-	-	-
2010 - 2014	430,000	695,463	1,125,463	96,000	186,000	282,000
2015 - 2019	910,000	493,113	1,403,113	-	-	-
2020 - 2024	1,235,000	185,292	1,420,292	-	-	-
<b>Total</b>	<b>\$ 3,055,000</b>	<b>\$ 2,168,346</b>	<b>\$ 5,223,346</b>	<b>\$ 96,000</b>	<b>\$ 186,000</b>	<b>\$ 282,000</b>



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Fiscal Year Ending June 30	General Obligation		
	Energy Conservation Bonds		
	Principal	Interest	Total
2005	\$ 58,900	\$ 7,657	\$ 66,557
2006	58,900	4,594	63,494
<i>Total</i>	\$ 117,800	\$ 12,251	\$ 130,051

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$6,339,164, an unvoted debt margin of \$103,879, and an energy conservation debt margin of \$817,108.

**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 2004, the District has contracted with Indiana Insurance Company to provide general liability, fleet, building, and contents coverage. The District has contracted with the Midwestern Indemnity Company for builder's risk coverage.

The District had the following coverages in effect for fiscal year 2004:

Limits of Coverage	Coverage	Deductible
General liability		
Each occurrence	\$ 2,000,000	\$ 0
Aggregate	5,000,000	0
Fleet:		
Comprehensive	1,000,000	50
Collision	1,000,000	250
Building and contents	11,923,371	500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal 2003.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**B. Health Benefits**

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

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

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

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

**13. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$171,763, \$155,838, and \$185,867, respectively; 52.84 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$81,012 represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

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

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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 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 years 2004 and 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$664,691, \$596,606, and \$584,524, respectively; 85.18 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$98,500 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$769 made by the District and \$7,823 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, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$47,478 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$84,670 during the 2004 fiscal year.

**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);
- (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:

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (603,692)
Net adjustment for revenue accruals	429,383
Net adjustment for expenditure accruals	363,024
Net adjustment for other sources/uses	(63,437)
Adjustment for encumbrances	23,723
GAAP basis	\$ 149,001

**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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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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.

**C. State School Funding Decision**

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

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

**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, 2004, the reserve activity was as follows:

	Textbooks	Capital Acquisition	Budget Stabilization
Balance as of June 30, 2003	\$ (475,719)	\$ (3,801,991)	\$ 19,552
Current year set-aside requirement	185,291	185,291	-
Current year offsets	-	-	-
Qualifying disbursements	(618,573)	-	-
<i>Total</i>	<u>\$ (909,001)</u>	<u>\$ (3,616,700)</u>	<u>\$ 19,552</u>
Cash balance carried forward to FY 2005	<u>\$ (909,001)</u>	<u>\$ (3,616,700)</u>	<u>\$ 19,552</u>

The District had qualifying disbursements which reduced the set-aside amount below zero for the textbook and capital acquisition reserves. These negative amounts will be presented as being carried forward to the next fiscal year.

The budget stabilization reserve represents Bureau of Workers' Compensation refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The Board of Education resolved to maintain the budget stabilization reserve. A total of \$305,448 is reported as designated fund balance in the general fund.

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for budget stabilization	<u>\$ 19,552</u>
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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**18. COMPLIANCE**

The District did not certify all expenditures before the obligation had been incurred as required by the Ohio Revised Code § 5705.41 (D).

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>	
<i>Passed through the Ohio Department of Education</i>	
<u>Nutrition Cluster:</u>	
Food Distribution	n/a
<i>Total - School Breakfast Program</i>	
National School Lunch Program	047746-LLP4-2003 047746-LLP4-2004
<i>Total - National School Lunch Program</i>	
<b>Total Department of Agriculture- Nutrition Cluster</b>	
<i>Passed through the Ohio Department of Education</i>	
Special Education - Grants to States	047746-6BSF-2002-P 047746-6BSF-2003-P 047746-6BSF-2004
<i>Total - Special Education Grants to States</i>	
Title I Grants to Local Educational Agencies	047746-C1-S1 2003 047746-C1-S1 2004
<i>Total - Title I Grants to Local Educational Agencies</i>	
Safe and Drug Free Schools and Communities - State Grants	047746-DRS1-2003 047746-DRS1-2004
<i>Total - Safe and Drug Free Schools and Communities - State Grants</i>	
Innovative Education Program Strategies	047746-C2S1-2003 047746-C2S1-2004
<i>Total - Innovative Education Program Strategies</i>	
Technology Literacy Challenge Fund Grants	047746-TJS1-2004
School Renovation Grants	047746-ATS2-2002 047746-ATS3-2002
<i>Total - School Renovation Grants</i>	
Improving Teacher Quality State Grants	047746-TRS1-2003 047746-TRS1-2004
<i>Total - Improving Teacher Quality State Grants</i>	
Total Department of Education	
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>	
<i>Passed through the Ohio Department of Education</i>	
Learn and Serve America School and Community Based Program	047746-SVS1-2002 047746-SVS3-2003 047746-SVS1-2004
<i>Total Corporation for National and Community Service</i>	
LSTA Library Grant	
<b>TOTALS</b>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
10.550		\$ 13,977		\$ 13,977
10.555	\$ 14,137		\$ 14,137	
	81,991		81,991	
	96,128		96,128	
	96,128	13,977	96,128	13,977
84.027	4,032		4,032	
			53,537	
	188,394		198,666	
	192,426		256,235	
84.010			1,879	
	70,721		101,224	
	70,721		103,103	
84.186			134	
	9,287		9,287	
	9,287		9,421	
84.298			6,028	
	1,310		7,922	
	1,310		13,950	
84.318	2,038		3,018	
	(150)			
84.352A	(336)		507	
	(486)		507	
84.367			9,574	
	44,088		47,312	
	44,088		56,886	
	<b>319,384</b>		<b>443,120</b>	
94.004	(24)			
	(219)		1,567	
	3,158		3,382	
	2,915		4,949	
45.310			215	
	<b>\$ 418,427</b>	<b>\$ 13,977</b>	<b>\$ 544,412</b>	<b>\$ 13,977</b>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (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 CLUSTER**

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.



**Auditor of State  
Betty Montgomery**

**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, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 23, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* and changed its capital assets threshold policy during 2004. 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 in order to express our opinion 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 23, 2005, we reported other matters involving internal control over financial reporting.

### **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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

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.



**Betty Montgomery**  
Auditor of State

May 23, 2005



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND 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 are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

### **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



**Betty Montgomery**  
Auditor of State

May 23, 2005



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004

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

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

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

**Finding Number 2004-001**

Ohio Revised Code § 5705.41 (D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**Finding Number 2004-001  
(Continued)**

- **“Then and Now” certificate** - If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that he is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$100 for counties) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

- **Blanket Certificate** – Fiscal officers may prepare blanket certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the board against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.
- **Super Blanket Certificate** – The taxing authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

For 45 percent of the expenditures tested, the District did not properly certify funds prior to purchase commitment nor was there evidence the District followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the taxing authority’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the taxing authority. When prior certification is not possible, “then and now” certification should be used.

We recommend the taxing authority certify purchases to which section 5704.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the taxing authority incurs the commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

The Treasurer is aware that this compliance matter has been a repeat issue and is making an effort in the current fiscal year to comply with this requirement.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2003-WRLSD-001	Ohio Revised Code § 5705.41(B) provides that no subdivision is to expend money unless it has been appropriated. Expenditures exceed appropriation for various funds.	Yes	
2003-WRLSD-002	Ohio Revised Code § 5705.41(D) requires the certification of the fiscal officer of the availability of appropriations. The certification of the fiscal officer was dated after the invoice date for a significant number of disbursements.	No	This finding is repeated in this report as item number 2004-001.
2003-WRLSD-003	The Nutrition Grant Cluster requires the verification, by the District, of the information on a sample of the free and reduced applications. The District did not verify a sample of the applications	Yes	





**Auditor of State  
Betty Montgomery**

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT**

**HURON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 21, 2005**