



Mary Taylor, CPA
Auditor of State

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountant's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	17
Statement of Fund Net Assets – Internal Service Fund.....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund	19
Statement of Cash Flows - Internal Service Fund	20
Statement of Fiduciary Assets and Liabilities - Agency Funds	21
Notes to the Basic Financial Statements	22
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Western Reserve Local School District
Mahoning County
13850 Akron-Canfield Road
Berlin Center, Ohio 44401

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 Western Reserve Local School District, Mahoning County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 28, 2007

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- In total, net assets increased by \$306,704.
- Revenues for governmental activities totaled \$6,969,229 in 2006. Of this total, 84 percent consisted of general revenues while program revenues accounted for the balance of 16 percent.
- Program expenses totaled \$6,662,525. Instructional expenses made up 51 percent of this total while support services accounted for 41 percent. Other expenses rounded out the remaining 8 percent.
- General revenues totaled \$5,825,555. Of this total, \$2,747,174 or 47 percent was derived from property taxes, \$3,042,087 or 52 percent from state entitlements and grants and \$36,294 or 1 percent was derived from interest and other miscellaneous revenues.
- The general fund balance was \$1,255,774 on a budget basis at fiscal year end, up from \$446,650 at June 30, 2005.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes pertaining to those statements. These statements are organized so the reader can understand Western Reserve Local School District as a financial whole, or complete 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 School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Western Reserve Local School District, the general fund and the permanent improvement capital projects fund are the most significant funds.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The cause of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District.

In the Statement of Net Assets and the Statement of Activities, all activities of the School District are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement capital projects fund.

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

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets
Governmental Activities

	2006	2005	Change
Assets			
Current and Other Assets	\$4,525,420	\$3,726,361	\$799,059
Capital Assets	2,357,298	2,492,287	(134,989)
<i>Total Assets</i>	<u>6,882,718</u>	<u>6,218,648</u>	<u>664,070</u>
Liabilities			
Current Liabilities	3,700,620	3,419,403	281,217
Long-Term Liabilities			
Due within One Year	38,282	28,096	10,186
Due in More than One Year	553,740	487,777	65,963
<i>Total Liabilities</i>	<u>4,292,642</u>	<u>3,935,276</u>	<u>357,366</u>
Net Assets			
Invested in Capital Assets	2,357,298	2,492,287	(134,989)
Restricted for:			
Capital Projects	179,808	373,589	(193,781)
Debt Service	9,312	9,142	170
Other Purposes	54,535	49,243	5,292
Set Asides	145,507	177,915	(32,408)
Unrestricted (Deficit)	(156,384)	(818,804)	662,420
<i>Total Net Assets</i>	<u><u>\$2,590,076</u></u>	<u><u>\$2,283,372</u></u>	<u><u>\$306,704</u></u>

Total assets increased by \$664,070. The majority of this increase can be attributed to a full fiscal year of tax collections from the passage of a 5.6 mill levy on November 2, 2004, which resulted in an increase to cash from the previous fiscal year.

Total liabilities increased by \$357,366. Accounts payable increased due to the purchase of two new school buses and the increased cost of bus diesel fuel. Repairs to our aging buildings and grounds also contributed to the increase in liabilities.

By comparing assets and liabilities, one can see the overall position of the School District has slightly increased as evidenced by the increase in net assets of \$306,704. The increase in unrestricted net assets of \$662,420 was due primarily to the passage of the November 2, 2004 5.6 mill levy and the increase in property valuation.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Additional increases in property taxes were due to the 2005 reappraisal which greatly increased the School District's property valuation for the 2006 collections. Open enrollment tuition increased in fiscal year 2006 as well as investment earnings.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$5,825,555 or 84 percent of the total revenue. The most significant portion of the general revenue is State entitlements and grants. The remaining amount of revenue received was in the form of program revenues, which equaled \$1,143,674 or 16 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

Table 2
 Change in Net Assets
 Governmental Activities

	2006	2005	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services and Sales	\$841,157	\$761,243	\$79,914
Operating Grants and Contributions	297,522	342,704	(45,182)
Capital Grants and Contributions	4,995	9,186	(4,191)
<i>Total Program Revenues</i>	1,143,674	1,113,133	30,541
<i>General Revenues</i>			
Property Taxes	2,747,174	2,371,772	375,402
Intergovernmental	3,042,087	3,052,357	(10,270)
Investment Earnings	25,656	5,523	20,133
Miscellaneous	10,638	15,451	(4,813)
<i>Total General Revenues</i>	5,825,555	5,445,103	380,452
<i>Total Revenues</i>	6,969,229	6,558,236	410,993
<i>Program Expenses</i>			
Instruction:			
Regular	2,731,704	2,698,766	32,938
Special	567,087	689,841	(122,754)
Vocational	115,355	121,497	(6,142)
Adult/Continuing	5,700	20,600	(14,900)
Support Services:			
Pupil	284,267	273,118	11,149
Instructional Staff	301,574	303,788	(2,214)
Board of Education	34,879	29,397	5,482
Administration	601,649	609,990	(8,341)

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2
 Change in Net Assets (continued)
 Governmental Activities

	2006	2005	Change
<i>Program Expenses</i>			
Support Services:			
Fiscal	\$290,264	\$241,882	48,382
Business	24,560	7,907	16,653
Operation and Maintenance of Plant	579,355	539,085	40,270
Pupil Transportation	556,740	393,557	163,183
Central	15,698	18,671	(2,973)
Operation of Food Services	233,069	240,649	(7,580)
Extracurricular Activities	320,624	292,738	27,886
<i>Total Program Expenses</i>	6,662,525	6,481,486	181,039
<i>Increase in Net Assets</i>	306,704	76,750	229,954
Net Assets Beginning of Year	2,283,372	2,206,622	76,750
<i>Net Assets End of Year</i>	\$2,590,076	\$2,283,372	\$306,704

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five fiscal years. The negotiated union contracts, effective through fiscal year 2008, include no pay increases for the first two years of the contract and a two percent increase in the third year. Based on the renewal of all expiring levies and a slight increase projected from the State in its next budget, the School District will be able to operate without a deficit in the general fund as projected in the School District's five year forecast.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Approximately 51 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass 41 percent. The remaining amount of program expenses, 8 percent, is budgeted to pay for other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$2,731,704	\$2,428,728	\$2,698,766	\$2,419,123
Special	567,087	398,534	689,841	506,397
Vocational	115,355	103,713	121,497	110,125
Adult/Continuing	5,700	12	20,600	233
Support Services:				
Pupil	284,267	258,465	273,118	200,753
Instructional Staff	301,574	212,686	303,788	264,382
Board of Education	34,879	31,360	29,397	26,655
Administration	601,649	515,679	609,990	523,443
Fiscal	290,264	261,452	241,882	220,398
Business	24,560	18,012	7,907	7,075
Operation and Maintenance of Plant	579,355	529,478	539,085	493,031
Pupil Transportation	556,740	502,052	393,557	345,491
Central	15,698	14,114	18,671	16,928
Operation of Food Services	233,069	36,926	240,649	40,952
Extracurricular Activities	320,624	207,640	292,738	193,367
<i>Total Expenses</i>	<u>\$6,662,525</u>	<u>\$5,518,851</u>	<u>\$6,481,486</u>	<u>\$5,368,353</u>

As one can see, the reliance upon grants and entitlements for governmental activities is crucial. Over 50 percent of expenses are directly supported by grants and entitlements. Local tax monies support 41 percent of expenses and program revenues support the remaining expenses.

The School District's Funds

Information regarding the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,977,892 to offset expenditures of \$6,453,803. The net change in fund balance for the year was most significant in the General fund, which increased \$734,162. This was mostly due to the collections on property taxes and the tuition from open enrollment which increased revenue in the fund. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, grants and entitlements and property taxes are the School District's largest revenue sources. They account for 48 and 39 percent of total governmental revenue, respectively, and are a great source of financial support for the students of the Western Reserve Local School District.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management. The most significant fund to be budgeted is the main operating fund of the School District, the General fund.

For the general fund, actual budget basis revenue matched final budget estimates with a total of \$6,208,611. Original budget estimates of \$6,016,600 differed from the final budget estimates due to local property tax money being collected on the November 2004 levy that was passed and to the increase in property valuation due to reappraisal.

Actual budget basis expenditures matched final budget expenditures with a total of \$5,424,444. Original budget basis expenditures of \$5,616,584 differed from final budget expenditures due to two monthly "holidays" credited for the School District's health insurance.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$2,357,298 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 4
 Capital Assets at June 30 (Net of Depreciation)

	2006	2005
Land	\$28,935	\$28,935
Buildings and Improvements	1,336,878	1,448,575
Furniture and Equipment	378,204	430,407
Vehicles	293,995	208,180
Textbooks	319,286	376,190
<i>Total</i>	\$2,357,298	\$2,492,287

All capital assets, except land, are reported net of depreciation. As one can see, a decrease in capital assets during the fiscal year occurred in all categories except vehicles, due to the annual depreciation. The School District purchased two new school buses during fiscal year 2006. Capital assets increased in the vehicles category due to the purchase of the two school buses. For more information about the School District's capital assets, see Note 9 to the basic financial statements.

Debt

The School District had no outstanding general obligation debt at June 30, 2006. For more information on the School District's long-term obligations, see Note 16 to the basic financial statements.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

School District Outlook

The Western Reserve Local School District has continued to maintain a high level of service to our students, parents and community. The Western Reserve Local School District has earned an "Excellent" rating on the State rating scale, for the fifth consecutive year, meeting 25 out of the 25 indicators for fiscal year 2006. The School District's average cost per pupil is 10 percent below the County average and 18 percent below the State average. The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast and are doing everything in their power to make sure tax dollars are being used efficiently and effectively.

The financial future of the School District is not without its challenges. The School District is not anticipating any meaningful growth in State revenue as evidenced by the current two-year budget which has no increase for our School District, and the outcome of the State's unconstitutional educational funding system. Therefore the School District relies heavily on its taxpayers to support its operations. It is becoming increasingly more difficult to secure the local support. Our new 5.6 mill levy that was passed in November of 2004 had failed both in the November 2003 election and the March 2004 election. Two renewal levies have since passed, one in November of 2005 and another in November of 2006.

As a result of the challenges mentioned above, it is imperative that the School District's management continue to carefully and prudently plan in order to try to provide the resources required to meet student needs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Carol E. Brobst, Treasurer, Western Reserve Local School District, 13850 Akron-Canfield Road, Berlin Center, Ohio 44401. The Treasurer may also be contacted by phone at 330-547-4100, extension 151, or by email at wres_ceb@access-k12.org.

Western Reserve Local School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,528,297
Accounts Receivable	210
Accrued Interest Receivable	3,666
Intergovernmental Receivable	8,961
Prepaid Items	1,672
Inventory Held for Resale	1,593
Materials and Supplies Inventory	59,157
Property Taxes Receivable	2,921,864
Nondepreciable Capital Assets	28,935
Depreciable Capital Assets, Net	<u>2,328,363</u>
<i>Total Assets</i>	<u>6,882,718</u>
Liabilities	
Accounts Payable	38,098
Accrued Wages Payable	541,933
Intergovernmental Payable	264,702
Special Termination Benefits Payable	11,107
Deferred Revenue	2,844,512
Claims Payable	268
Long-Term Liabilities:	
Due Within One Year	38,282
Due In More Than One Year	<u>553,740</u>
<i>Total Liabilities</i>	<u>4,292,642</u>
Net Assets	
Invested in Capital Assets	2,357,298
Restricted for:	
Capital Projects	179,808
Debt Service	9,312
Other Purposes	54,535
Set-asides	145,507
Unrestricted (Deficit)	<u>(156,384)</u>
<i>Total Net Assets</i>	<u><u>\$2,590,076</u></u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets	
			Capital Grants and Contributions	Governmental Activities	
Governmental Activities					
Instruction:					
Regular	\$2,731,704	\$268,163	\$34,813	\$0	(\$2,428,728)
Special	567,087	44,388	124,165	0	(398,534)
Vocational	115,355	11,642	0	0	(103,713)
Adult/Continuing	5,700	0	5,688	0	(12)
Support Services:					
Pupil	284,267	23,411	2,391	0	(258,465)
Instructional Staff	301,574	25,434	63,454	0	(212,686)
Board of Education	34,879	3,519	0	0	(31,360)
Administration	601,649	80,970	5,000	0	(515,679)
Fiscal	290,264	28,812	0	0	(261,452)
Business	24,560	5,083	1,465	0	(18,012)
Operation and Maintenance of Plant	579,355	49,572	305	0	(529,478)
Pupil Transportation	556,740	39,427	10,266	4,995	(502,052)
Central	15,698	1,584	0	0	(14,114)
Operation of Food Services	233,069	146,168	49,975	0	(36,926)
Extracurricular Activities	320,624	112,984	0	0	(207,640)
Totals	\$6,662,525	\$841,157	\$297,522	\$4,995	(5,518,851)

General Revenues

Property Taxes Levied for:

General Purposes	2,555,038
Capital Outlay	192,136
Grants and Entitlements not Restricted to Specific Programs	3,042,087
Investment Earnings	25,656
Miscellaneous	10,638

Total General Revenues

5,825,555

Change in Net Assets

306,704

Net Assets Beginning of Year

2,283,372

Net Assets End of Year

\$2,590,076

See accompanying notes to the basic financial statements

Western Reserve Local School District

Balance Sheet

Governmental Funds

June 30, 2006

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,114,495	\$170,034	\$68,875	\$1,353,404
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	150,502	0	0	150,502
Receivables:				
Taxes	2,719,779	202,085	0	2,921,864
Accounts	0	0	210	210
Intergovernmental	137	0	8,824	8,961
Accrued Interest	3,666	0	0	3,666
Prepaid Items	1,672	0	0	1,672
Inventory Held for Resale	0	0	1,593	1,593
Materials and Supplies Inventory	58,941	0	216	59,157
<i>Total Assets</i>	<u>\$4,049,192</u>	<u>\$372,119</u>	<u>\$79,718</u>	<u>\$4,501,029</u>
Liabilities				
Accounts Payable	\$37,397	\$280	\$421	\$38,098
Accrued Wages Payable	516,845	0	25,088	541,933
Intergovernmental Payable	233,645	0	31,057	264,702
Special Termination Benefits Payable	11,107	0	0	11,107
Deferred Revenue	2,719,779	202,085	0	2,921,864
<i>Total Liabilities</i>	<u>3,518,773</u>	<u>202,365</u>	<u>56,566</u>	<u>3,777,704</u>
Fund Balances				
Reserved for Encumbrances	5,959	15,228	7,782	28,969
Reserved for Bus Purchase	4,995	0	0	4,995
Reserved for Textbooks	78,194	0	0	78,194
Reserved for Budget Stabilization	67,313	0	0	67,313
Unreserved:				
Undesignated, Reported in:				
General Fund	373,958	0	0	373,958
Debt Service Fund	0	0	9,312	9,312
Special Revenue Funds	0	0	6,058	6,058
Capital Projects Funds	0	154,526	0	154,526
<i>Total Fund Balances</i>	<u>530,419</u>	<u>169,754</u>	<u>23,152</u>	<u>723,325</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,049,192</u>	<u>\$372,119</u>	<u>\$79,718</u>	<u>\$4,501,029</u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances \$723,325

*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. 2,357,298

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.
These deferrals are attributed to property taxes. 77,352

An internal service fund is used by management to charge
the costs of insurance to individual funds. The assets and
liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 24,123

Long-term liabilities, such as compensated absences, are not
due and payable in the current period and therefore are not
reported in the funds. (592,022)

Net Assets of Governmental Activities \$2,590,076

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$2,562,342	\$193,495	\$0	\$2,755,837
Intergovernmental	3,015,884	31,028	277,128	3,324,040
Interest	25,576	0	80	25,656
Tuition and Fees	550,677	0	2,138	552,815
Extracurricular Activities	3,032	0	119,151	122,183
Rentals	1,215	0	0	1,215
Contributions and Donations	13,411	0	7,153	20,564
Charges for Services	0	0	164,944	164,944
Miscellaneous	8,371	0	2,267	10,638
<i>Total Revenues</i>	<u>6,180,508</u>	<u>224,523</u>	<u>572,861</u>	<u>6,977,892</u>
Expenditures				
Current:				
Instruction:				
Regular	2,485,108	94,804	33,871	2,613,783
Special	437,160	2,735	124,420	564,315
Vocational	114,882	0	0	114,882
Adult/Continuing	0	0	5,700	5,700
Support Services:				
Pupil	231,401	0	51,653	283,054
Instructional Staff	250,641	2,129	14,289	267,059
Board of Education	34,879	0	0	34,879
Administration	546,289	1,805	53,318	601,412
Fiscal	243,639	4,205	0	247,844
Business	391	16,440	6,900	23,731
Operation and Maintenance of Plant	482,305	44,487	1,311	528,103
Pupil Transportation	389,404	111,193	10,285	510,882
Central	15,698	0	0	15,698
Operation of Food Services	0	0	209,649	209,649
Extracurricular Activities	197,823	2,215	90,859	290,897
Capital Outlay	0	141,915	0	141,915
<i>Total Expenditures</i>	<u>5,429,620</u>	<u>421,928</u>	<u>602,255</u>	<u>6,453,803</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>750,888</u>	<u>(197,405)</u>	<u>(29,394)</u>	<u>524,089</u>
Other Financing Sources (Uses)				
Transfers In	12	0	16,738	16,750
Transfers Out	(16,738)	0	(12)	(16,750)
<i>Total Other Financing Sources (Uses)</i>	<u>(16,726)</u>	<u>0</u>	<u>16,726</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	734,162	(197,405)	(12,668)	524,089
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(203,743)</u>	<u>367,159</u>	<u>35,820</u>	<u>199,236</u>
<i>Fund Balances End of Year</i>	<u>\$530,419</u>	<u>\$169,754</u>	<u>\$23,152</u>	<u>\$723,325</u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds **\$524,089**

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

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

Capital Outlay	130,082
Current Year Depreciation	<u>(250,401)</u>

Total	(120,319)
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (14,670)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues were attributed to property taxes. (8,663)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (76,149)

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 2,416

Change in Net Assets of Governmental Activities \$306,704

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$2,362,200	\$2,562,342	\$2,562,342	\$0
Intergovernmental	3,052,400	3,043,986	3,043,986	0
Interest	10,000	25,577	25,577	0
Tuition and Fees	564,000	550,677	550,677	0
Extracurricular Activities	3,000	3,032	3,032	0
Rentals	1,000	1,215	1,215	0
Contributions and Donations	18,000	13,411	13,411	0
Miscellaneous	6,000	8,371	8,371	0
<i>Total Revenues</i>	6,016,600	6,208,611	6,208,611	0
Expenditures				
Current:				
Instruction:				
Regular	2,590,838	2,522,482	2,522,482	0
Special	485,000	442,049	442,049	0
Vocational	115,500	114,700	114,700	0
Support Services:				
Pupil	244,214	229,055	229,055	0
Instructional Staff	271,555	246,972	246,972	0
Board of Education	29,000	18,466	18,466	0
Administration	580,885	559,123	559,123	0
Fiscal	237,300	244,441	244,441	0
Business	500	391	391	0
Operation and Maintenance of Plant	472,972	464,014	464,014	0
Pupil Transportation	375,720	371,843	371,843	0
Central	24,000	15,698	15,698	0
Extracurricular Activities	189,100	195,210	195,210	0
<i>Total Expenditures</i>	5,616,584	5,424,444	5,424,444	0
<i>Excess of Revenues Over Expenditures</i>	400,016	784,167	784,167	0
Other Financing Sources (Uses)				
Sale of Capital Assets	200	0	0	0
Transfers In	0	12	12	0
Transfers Out	(33,000)	(16,738)	(16,738)	0
<i>Total Other Financing Sources (Uses)</i>	(32,800)	(16,726)	(16,726)	0
<i>Net Change in Fund Balance</i>	367,216	767,441	767,441	0
<i>Fund Balance Beginning of Year</i>	446,650	446,650	446,650	0
Prior Year Encumbrances Appropriated	41,683	41,683	41,683	0
<i>Fund Balance End of Year</i>	\$855,549	\$1,255,774	\$1,255,774	\$0

See accompanying notes to the basic financial statements

Western Reserve Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2006

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$24,391
Liabilities	
Claims Payable	<u>268</u>
Net Assets	
Unrestricted	<u><u>\$24,123</u></u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006*

	Insurance
Operating Revenues	
Charges for Services	\$6,765
Operating Expenses	
Purchased Services	1,041
Claims	3,308
<i>Total Operating Expenses</i>	4,349
<i>Change in Net Assets</i>	2,416
<i>Net Assets Beginning of Year</i>	21,707
<i>Net Assets End of Year</i>	\$24,123

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Insurance
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$6,765
Cash Payments for Goods and Services	(1,041)
Cash Payments for Claims	(3,203)
<i>Net Increase in Cash and Cash Equivalents</i>	2,521
<i>Cash and Cash Equivalents Beginning of Year</i>	21,870
<i>Cash and Cash Equivalents End of Year</i>	\$24,391
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$2,416
Adjustments:	
Increase in Claims Payable	105
<i>Net Cash Provided by Operating Activities</i>	\$2,521

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$18,711</u>
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Liabilities

Undistributed Monies	\$3,031
Due to Students	<u>15,680</u>

<i>Total Liabilities</i>	<u>\$18,711</u>
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See accompanying notes to the basic financial statements

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 1 - Description of the School District and Reporting Entity

Western Reserve Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government. The School District is located in Berlin Center, Ohio, Mahoning County. The School District provides educational services as mandated by state and/or federal agencies. The Board of Education controls the School District's three instructional/support facilities staffed by 33 classified employees, 55 certified employees and 4 administrators who provide services to 813 students and other community members.

Reporting Entity

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

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

The School District participates in two jointly governed organizations and three public entity risk pools. These organizations are the Mahoning County Career and Technical Center, Area Cooperative Computerized Educational Service System Council of Governments, Mahoning County Schools Employee Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Ohio School Plan. These organizations are presented in Notes 10 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and its internal service fund. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

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

B. Fund Accounting

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

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

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

Permanent Improvement Fund The permanent improvement fund receives property taxes for the acquisition, construction or improvement of capital facilities.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The School District has no enterprise funds. The following is a description of the School District's internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self-insurance fund that accounts for vision claims of the School District's employees.

Fiduciary Fund Types 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities.

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations 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 net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund.

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 and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

Nonexchange transactions, in which the School 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were passed by the Board of Education. Prior to fiscal year end, the School District requested an amended certificate that matched revenues.

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. During fiscal year 2006, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$25,576, which includes \$3,996 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by State statute to be set-aside for the purchase of textbooks and to create a reserve for budget stabilization. See Note 18 for additional information regarding set asides.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

J. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 - 100 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 20 years
Textbooks	5 years

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 fiscal year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$389,162, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for the operation of instructional services, support services and extracurricular activities.

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

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for 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 are established for encumbrances, bus purchase, textbooks and budget stabilization.

The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund. Any revenue or expense not meeting the definition of operating is reported as non-operating.

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

R. Estimates

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

Note 3 - Change in Accounting Principle

For fiscal year 2006, the School District has implemented GASB Statement No. 47, "Accounting for Termination Benefits". GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

Note 4 – Fund Deficits

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

Special Revenue Funds:	
Food Service	35,139
Educational Management Information System	3,396
Title VI-B	1,448
Title I	466
Reducing Class Size	246

The special revenue funds deficit balances resulted from accruals on the modified accrual basis of accounting. The general fund is liable for any fund deficits and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting its 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	Net Change in Fund Balance
GAAP Basis	\$734,162
Net Adjustment for Revenue Accruals	28,103
Net Adjustment for Expenditure Accruals	14,399
Adjustment for Encumbrances	<u>(9,223)</u>
Budget Basis	<u><u>\$767,441</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

Interim deposits are deposits of interim monies. Interim 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 or deposit accounts including passbook accounts.

Interim monies held by the School District can 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 payment of principal and interest by the United States;

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposits or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,571,713 of the School District's bank balance of \$1,725,498 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Mahoning County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Due to the timing of the tax bills sent by the County, there is no money available as an advance to the School District at June 30, 2006 and June 30, 2005.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$68,905,970	89.07 %	\$84,039,850	92.33 %
Public Utility Personal	4,856,370	6.28	4,438,020	4.87
Tangible Personal Property	3,601,991	4.65	2,542,097	2.80
Total	<u>\$77,364,331</u>	<u>100.00 %</u>	<u>\$91,019,967</u>	<u>100.00 %</u>
Full Tax rate per \$1,000 of assessed valuation	\$50.65		\$49.60	

Note 8 – Receivables

Receivables at June 30, 2006 consisted of property taxes, accounts (billings for user charged services and student fees), intergovernmental grants, and interest. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivable follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Federal Lunchroom Reimbursement	\$8,274
Softball and Track State Reimbursement	550
Mahoning County ESC Reimbursement	137
Total	<u>\$8,961</u>

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 9 - Capital Assets

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

	<u>Balance 6/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/06</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	28,935	0	0	28,935
Capital assets being depreciated				
Buildings and improvements	4,927,466	0	0	4,927,466
Furniture, fixtures and equipment	1,220,878	18,682	(112,300)	1,127,260
Vehicles	436,161	111,400	(6,050)	541,511
Textbooks	490,000	0	0	490,000
Total capital assets being depreciated	<u>7,074,505</u>	<u>130,082</u>	<u>(118,350)</u>	<u>7,086,237</u>
Accumulated depreciation				
Buildings and improvements	(3,478,891)	(111,697)	0	(3,590,588)
Furniture, fixtures and equipment	(790,471)	(58,859)	100,274	(749,056)
Vehicles	(227,981)	(22,941)	3,406	(247,516)
Textbooks	(113,810)	(56,904)	0	(170,714)
Total accumulated depreciation	<u>(4,611,153)</u>	<u>(250,401) *</u>	<u>103,680</u>	<u>(4,757,874)</u>
Capital assets being depreciated, net	<u>2,463,352</u>	<u>(120,319)</u>	<u>(14,670)</u>	<u>2,328,363</u>
Governmental activities capital assets, net	<u>\$2,492,287</u>	<u>(\$120,319)</u>	<u>(\$14,670)</u>	<u>\$2,357,298</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$79,435
Special	95
Support Services:	
Pupil	772
Instructional Staff	31,630
Administration	2,790
Fiscal	536
Business	792
Operation and Maintenance of Plant	48,927
Pupil Transportation	39,903
Operation of Food Services	17,699
Extracurricular Activities	27,822
Total Depreciation Expense	<u>\$250,401</u>

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Note 10 - Jointly Governed Organizations

A. Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a political subdivision of the State of Ohio operated under the direction of a Board consisting of the five members of the Mahoning County Educational Service Center Governing Board, representing the eleven local school districts, and one representative from each of the two city school districts. The students of each participating school district may attend classes offered at the vocational facility. During fiscal year 2006, no monies were received from the School District. To obtain financial information write to the Treasurer at the Mahoning County Career and Technical Center, 7300 North Palmyra Road, Canfield, Ohio 44406.

B. Area Cooperative Computerized Educational Service System Council of Governments

The Area Cooperative Computerized Educational Service System Council of Governments (COG) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports COG based on a per pupil charge. Western Reserve Local School District paid \$15,818 to COG during fiscal year 2006.

COG is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of COG including budgeting, appropriating, contracting and designating management. All of COG revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Note 11 - Risk Management

A. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

B. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool to obtain liability coverage. Each individual school district enters into an agreement with the OSP and its premium is based on the types of coverage and limits of coverage, and deductibles that it selects. During fiscal year 2006, the School District contracted with the Ohio School Plan for various types of insurance as follows:

<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Building and Contents-replacement cost	\$16,281,888	\$1,000
Boilers, Machinery/Equipment Breakdown	250,000	1,000
Money and Securities	10,000	1,000
Automobile Liability	3,000,000	1,000
Uninsured Motorists	1,000,000	1,000
General Liability/Violence		
Per occurrence	1,000,000	0
Total per year	3,000,000	0
Declaratory Equitable Injunctive Relief	25,000	2,500

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

C. Employee Medical Benefits

The School District has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, prescription drug, and dental benefits. The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County school districts. Rates are set through an annual calculation process. The Western Reserve Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/surgical premiums of \$996.70 for family coverage and \$402.82 for single coverage per employee per month. The School District pays \$63.99 for family dental coverage or \$27.90 for single dental coverage and \$256.06 for family and \$112.36 for single prescription drug coverage per month.

The School District has elected to provide vision benefits through a self-insurance program. The School District maintains an insurance reserve internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, Medical Mutual, located in Cleveland, Ohio, reviews and pays all claims which are then reimbursed by the School District. The School District pays into the insurance reserve internal service fund \$10.00 for family vision coverage or \$5.00 for single vision coverage per employee per month. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

The claims liability of \$268 reported in the internal service fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2005 and 2006 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2005	\$53	\$3,731	\$3,621	\$163
2006	163	3,308	3,203	268

Note 12 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$81,096, \$68,748, and \$61,657, respectively; 68.0 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

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

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 divided by 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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$374,385, \$337,900, and \$343,221, respectively; 79.0 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$6,388 made by the School District and \$6,441 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the

Western Reserve Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$28,799 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility, and retirement status

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$107,856.

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 the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Note 14 - Employee Benefits

A. Life Insurance

The School District provides life insurance to all regular employees. Coverage is \$40,000 for administrators and certified employees, \$30,000 for classified employees and \$10,000 for spouses. Life insurance is provided through the Jefferson Pilot Financial Company.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Accumulated unused sick time is paid to classified employees upon retirement. Teachers do not earn vacation time. Administrators earn 20 days of vacation annually. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month with unlimited accumulation. Upon retirement, employees receive payment for sick leave accumulation up to a maximum of 30 days, plus fifteen percent of their remaining accumulated sick leave. Upon retirement and with at least five years of service, the superintendent and the treasurer receive payment for fifty percent of accumulated unused sick leave.

Western Reserve Local School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

C. Retirement Incentive

The School District Board of Education offered employees participation in a Retirement Incentive program beginning in September 1, 2004 through October 31, 2007 for certified employees and beginning in July 1, 2005 through June 30, 2008 for classified employees. Participation was open to teachers who were eligible to retire by June 1st of the year in which the request was made under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. Participation was open to classified employees who were eligible to retire under the State Employees Retirement System (SERS) within 90 days of notification to the Board Treasurer. The value of the incentive for both certified and classified employees was equal to the difference between the employee's salary and the salary of a new employee in the same classification with zero years. The employee would receive 100% of the difference if he or she retired within one year of eligibility, 75% within 2 years of eligibility, and 50% within 3 years of eligibility. The incentive is paid in full the year following retirement. In fiscal year 2006, three employees participated in the program.

Note 15 - Interfund Transfers

The general fund made transfers to the food service and the educational management information systems special revenue funds for the amounts of \$3,271 and \$13,467, respectively. The transfer made to the food service fund was to help cover health care expenses in the fund and the transfer to the educational management information system fund was made to help pay salaries and fringe benefits. The SchoolNet Professional Development capital projects fund made a transfer to the general fund for \$12 to close out the fund.

Note 16 - Long-term Obligations

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Amount			Amount	Amounts
	Outstanding			Outstanding	due in
	6/30/05	Additions	Deductions	6/30/06	One Year
Governmental-Type Activities					
Compensated Absences	\$515,873	\$123,472	\$47,323	\$592,022	\$38,282

Compensated absences will be paid from the general fund and the food service special revenue fund.

The School District's overall legal debt margin was \$7,880,075 with an unvoted debt margin of \$87,453 at June 30, 2006.

Note 17 - Public Entity Risk Pools

A. Shared Risk Pool

Mahoning County Schools Employee Insurance Consortium The School District participates in the Mahoning County Schools Employee Insurance Consortium. This is a shared risk pool comprised of thirteen Mahoning County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

elects officers for one year terms to serve as the Board of Directors. A member can withdraw from participation in the Consortium by notifying the fiscal agent on or before January 15 of the year preceding the fiscal year in which the School District will withdraw. If the School District withdraws, no further contribution would be made, but the benefits under the insurance contract shall be paid in accordance of the terms of the contract. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

B. Insurance Purchasing Pools

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

Ohio School Plan The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Note 18 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continue to be set aside.

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

Western Reserve Local School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance June 30, 2005	\$110,602	\$0	\$67,313
Current year set-aside requirement	117,186	117,186	0
Qualifying disbursements	(149,594)	(298,538)	0
Totals	<u>\$78,194</u>	<u>(\$181,352)</u>	<u>\$67,313</u>
Set-aside balance carried forward to future fiscal years	<u>\$78,194</u>	<u>\$0</u>	<u>\$67,313</u>
Set-aside reserve balance June 30, 2006	<u>\$78,194</u>	<u>\$0</u>	<u>\$67,313</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. This extra amount may not be used to reduce the set-aside requirement for future fiscal years and therefore is not presented as being carried forward to future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$145,507.

Note 19 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is not party to legal proceedings as of June 30, 2006.

Note 20 – Subsequent Events

On November 7, 2006, the residents of the School District approved the renewal of a 4.2 mill emergency levy designated for current operating expenses. Tax revenue from this levy will first be received in January 2008 and should continue to generate approximately \$368,000 annually.



Mary Taylor, CPA

Auditor of State

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

Western Reserve Local School District
Mahoning County
13850 Akron-Canfield Road
Berlin Center, Ohio 44401

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 Western Reserve Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Western Reserve Local School District
Mahoning County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 28, 2007



Mary Taylor, CPA
Auditor of State

WESTERN RESERVE LOCAL SCHOOL DISTRICT

MAHONING 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
AUGUST 14, 2007**