

Dave Yost • Auditor of State



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio (the District), as of and for the year ended June 30, 2010, 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, the major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 8, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited

The management's discussion and analysis of the Western Reserve Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$425,696 which represents a 2.73% decrease from 2009.
- General revenues accounted for \$10,551,433 in revenue or 81.01% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,473,384 or 18.99% of total revenues of \$13,024,817.
- The District had \$13,450,513 in expenses related to governmental activities; \$2,473,384 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,551,433 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$10,790,885 in revenues and \$10,917,520 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$126,635 from a balance of \$915,013 to a balance of \$788,378.

**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of

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HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
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accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

#### ***Fund Financial Statements***

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

#### ***Governmental Funds***

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited

**The District as a Whole**

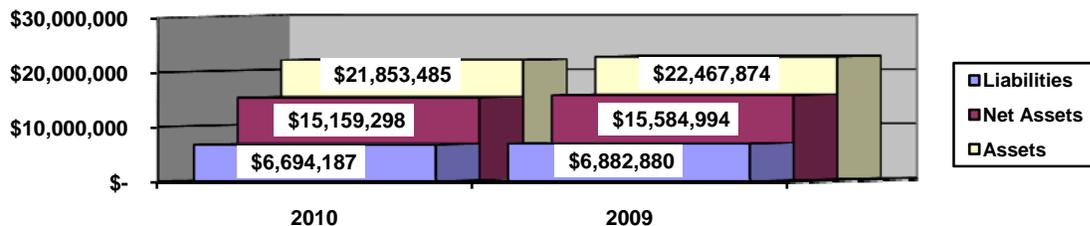
The table below provides a summary of the District's net assets for fiscal years 2010 and 2009.

	<b>Net Assets</b>	
	Governmental Activities 2010	Governmental Activities 2009
<b><u>Assets</u></b>		
Current and other assets	\$ 4,892,827	\$ 5,071,996
Capital assets, net	<u>16,960,658</u>	<u>17,395,878</u>
Total assets	<u>21,853,485</u>	<u>22,467,874</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,269,383	3,374,808
Long-term liabilities	<u>3,424,804</u>	<u>3,508,072</u>
Total liabilities	<u>6,694,187</u>	<u>6,882,880</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	14,300,642	14,657,999
Restricted	702,003	887,961
Unrestricted	<u>156,653</u>	<u>39,034</u>
Total net assets	<u>\$ 15,159,298</u>	<u>\$ 15,584,994</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$15,159,298.

At fiscal year-end, capital assets represented 77.61% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets net of related debt to acquire the assets at June 30, 2010 was \$14,300,642. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the District's net assets, \$702,003, represents resources that are subject to external restrictions on how they may be used.

**Governmental Activities**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The table below shows the change in net assets for fiscal years 2010 and 2009.

**Change in Net Assets**

	Governmental Activities 2010	Governmental Activities 2009
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,042,091	\$ 960,232
Operating grants and contributions	1,431,293	1,314,557
Capital grants and contributions	-	19,690
General revenues:		
Property taxes	2,475,698	2,498,964
School district income tax	1,546,735	1,689,429
Grants and entitlements	6,417,271	6,373,351
Investment earnings	38,279	36,916
Other	<u>73,450</u>	<u>27,270</u>
 Total revenues	 <u><u>13,024,817</u></u>	 <u><u>12,920,409</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,742,268	\$ 5,370,363
Special	1,768,303	1,708,776
Vocational	186,232	149,858
Adult continuing education	-	20,353
Other	269,621	266,951
Support services:		
Pupil	209,687	186,644
Instructional staff	691,137	576,190
Board of education	79,331	83,606
Administration	906,116	823,682
Fiscal	419,447	440,386
Business	27,852	37,397
Operations and maintenance	1,124,146	1,205,242
Pupil transportation	675,795	725,335
Central	37,857	45,728
Operation of non-instructional services		
Other non-instructional services	176,300	186,140
Food service operations	477,906	509,204
Extracurricular activities	487,044	457,681
Interest and fiscal charges	<u>171,471</u>	<u>176,545</u>
Total expenses	<u>13,450,513</u>	<u>12,970,081</u>
Change in net assets	(425,696)	(49,672)
Net assets at beginning of year	<u>15,584,994</u>	<u>15,634,666</u>
Net assets at end of year	<u>\$ 15,159,298</u>	<u>\$ 15,584,994</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$425,696. The decrease in net assets is primarily due to the increase of regular instruction and support services instructional staff of \$371,905 and \$114,947 respectively. Total governmental expenses of \$13,450,513 were offset by program revenues of \$2,473,384 and general revenues of \$10,551,433. Program revenues supported 18.39% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property and income taxes, and unrestricted grants and entitlements. These revenue sources represent 80.15% of total governmental revenue.

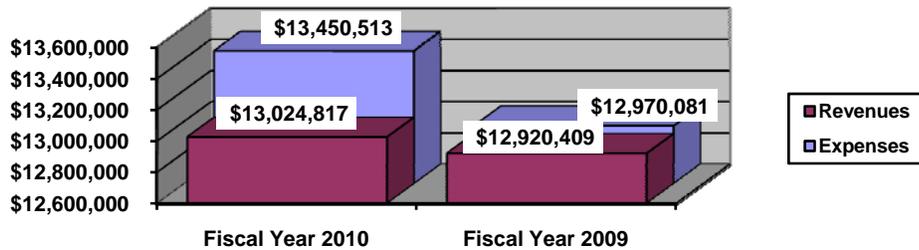
**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,966,424 or 59.23% of total governmental expenses for fiscal 2010.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

**Governmental Activities - Revenues and Expenses**



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

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

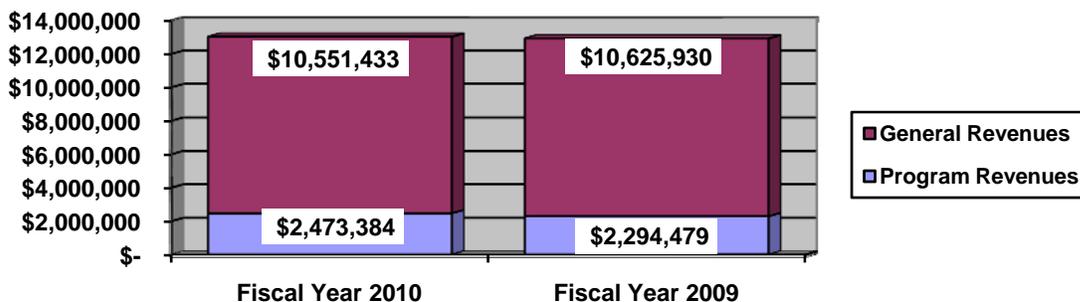
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited

	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2010	2010	2009	2009
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,742,268	\$ 5,053,572	\$ 5,370,363	\$ 4,847,253
Special	1,768,303	1,281,248	1,708,776	778,527
Vocational	186,232	127,461	149,858	90,615
Adult continuing education	-	-	20,353	20,353
Other	269,621	269,621	266,951	266,951
Support services:				
Pupil	209,687	207,035	186,644	186,644
Instructional staff	691,137	676,472	576,190	573,332
Board of education	79,331	79,331	83,606	83,606
Administration	906,116	856,870	823,682	789,247
Fiscal	419,447	419,447	440,386	420,663
Business	27,852	(93)	37,397	547
Operations and maintenance	1,124,146	786,014	1,205,242	1,190,808
Pupil transportation	675,795	581,472	725,335	674,434
Central	37,857	37,857	45,728	45,728
Operation of non-instructional services				
Other non-instructional services	176,300	97,770	186,140	186,140
Food service operations	477,906	9,989	509,204	70,286
Extracurricular activities	487,044	321,592	457,681	273,923
Interest and fiscal charges	171,471	171,471	176,545	176,545
<b>Total expenses</b>	<b>\$ 13,450,513</b>	<b>\$ 10,977,129</b>	<b>\$ 12,970,081</b>	<b>\$ 10,675,602</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 84.50% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.61%. The District's taxpayers along with the State foundation revenues, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

**Governmental Activities - General and Program Revenues**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,413,345 which is lower than last year's balance of \$1,515,904. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Decrease</u>
General	\$ 788,378	\$ 915,013	\$ (126,635)
Other Governmental	<u>624,967</u>	<u>600,891</u>	<u>24,076</u>
Total	<u>\$ 1,413,345</u>	<u>\$ 1,515,904</u>	<u>\$ (102,559)</u>

**General Fund**

The District's general fund balance decreased \$126,635. The following table shows the changes in revenues and expenditures in the general fund from 2010 and 2009.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,665,322	\$ 3,791,118	\$ (125,796)	(3.32) %
Tuition	552,747	425,953	126,794	29.77 %
Earnings on investments	35,773	34,782	991	2.85 %
Intergovernmental	6,427,617	6,922,534	(494,917)	(7.15) %
Other revenues	<u>109,426</u>	<u>82,603</u>	<u>26,823</u>	32.47 %
Total	<u>\$ 10,790,885</u>	<u>\$ 11,256,990</u>	<u>\$ (466,105)</u>	(4.14) %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,821,056	\$ 6,582,131	\$ 238,925	3.63 %
Support services	3,655,923	3,710,768	(54,845)	(1.48) %
Non-instructional services	97,770	186,140	(88,370)	(47.48) %
Extracurricular activities	252,772	255,149	(2,377)	(0.93) %
Facilities acquisition and construction	2,642	695	1,947	280.14 %
Debt service	<u>31,992</u>	<u>31,992</u>	-	-
Total	<u>\$ 10,862,155</u>	<u>\$ 10,766,875</u>	<u>\$ 95,280</u>	0.88 %

Overall revenues decreased \$466,105 or 4.14%. The most significant decrease was intergovernmental revenues which decreased \$494,917. Tax revenue which decreased \$125,796 can be attributed to a decline in tax receipts during the year as well as the amount available as an advance to the District. Tuition revenue increased \$126,794 or 29.77% due to the increase in open enrollment. Expenditures of the general fund increased \$95,280 or 0.88%. The most significant variance from the prior year was in the area of instruction expenditures which increased \$238,925. This increase can be attributed to the increases in salaries and wages.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
Unaudited

**General Fund Budgeting Highlights**

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

For the general fund, original and final budgeted revenues and other financing sources were \$11,343,600. The actual revenues and other financing sources for fiscal 2010 were \$10,845,325 which represents a \$498,275 decrease from final budgeted revenues.

General fund original and final appropriations (appropriated expenditures) were \$11,531,951. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$11,038,055, which is \$493,896 less than the final appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2010, the District had \$16,960,658 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 351,793	\$ 351,793
Land improvements	249,043	286,663
Building and improvements	15,415,297	15,889,874
Furniture and equipment	552,339	653,490
Vehicles	392,186	214,058
Total	\$ 16,960,658	\$17,395,878

The overall decrease in capital assets of \$435,220 is due to depreciation expense of \$690,524 and deletions of \$12,066 (net of accumulated depreciation) exceeding capital outlays of \$267,370 in the fiscal year.

**Debt Administration**

At June 30, 2010, the District had \$2,709,611 in general obligation bonds outstanding. Of this total, \$134,611 is due within one year and \$2,575,000 is due within greater than one year. See Note 11 to the basic financial statements for additional information. The following table summarizes the bonds outstanding.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
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**Outstanding Debt, at Year End**

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
General obligation bonds	\$ 2,620,777	\$ 2,671,000
Accreted interest	<u>88,834</u>	<u>157,680</u>
Total	<u>\$ 2,709,611</u>	<u>\$ 2,828,680</u>

At June 30, 2010, the District's overall legal debt margin was \$8,685,333 and an unvoted debt margin of \$122,203.

**Current Financial Related Activities**

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

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

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

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

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2010

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,902,232
Cash with fiscal agent . . . . .	6,106
Receivables:	
Property taxes . . . . .	2,428,883
Income taxes. . . . .	524,540
Accounts. . . . .	237
Accrued interest . . . . .	2,482
Prepayments . . . . .	24,439
Materials and supplies inventory. . . . .	3,908
Capital assets:	
Land . . . . .	351,793
Depreciable capital assets, net. . . . .	16,608,865
Capital assets, net . . . . .	16,960,658
 Total assets. . . . .	 21,853,485
<b>Liabilities:</b>	
Accounts payable. . . . .	40,270
Accrued wages and benefits . . . . .	826,475
Pension obligation payable. . . . .	259,253
Intergovernmental payable . . . . .	107,948
Unearned revenue . . . . .	2,016,036
Accrued interest payable . . . . .	19,401
Long-term liabilities:	
Due within one year. . . . .	193,115
Due within more than one year . . . . .	3,231,689
 Total liabilities . . . . .	 6,694,187
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	14,300,642
Restricted for:	
Capital projects . . . . .	231,760
Classroom facilities maintenance . . . . .	59,294
Debt service. . . . .	311,368
Locally funded programs . . . . .	1,035
State funded programs. . . . .	3,075
Federally funded programs . . . . .	6,979
Public school support . . . . .	18,151
Student activities . . . . .	60,186
Other purposes . . . . .	10,155
Unrestricted . . . . .	156,653
 Total net assets . . . . .	 \$ 15,159,298

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>	<b>Expenses</b>			
<b>Instruction:</b>				
Regular . . . . .	\$ 5,742,268	\$ 572,621	\$ 116,075	\$ (5,053,572)
Special . . . . .	1,768,303		487,055	(1,281,248)
Vocational . . . . .	186,232		58,771	(127,461)
Other . . . . .	269,621			(269,621)
<b>Support services:</b>				
Pupil . . . . .	209,687		2,652	(207,035)
Instructional staff . . . . .	691,137		14,665	(676,472)
Board of education . . . . .	79,331			(79,331)
Administration . . . . .	906,116	44,882	4,364	(856,870)
Fiscal . . . . .	419,447			(419,447)
Business . . . . .	27,852	27,945		93
Operations and maintenance . . . . .	1,124,146	15,892	322,240	(786,014)
Pupil transportation . . . . .	675,795		94,323	(581,472)
Central . . . . .	37,857			(37,857)
<b>Operation of non-instructional services:</b>				
Other non-instructional services . . . . .	176,300		78,530	(97,770)
Food service operations . . . . .	477,906	215,299	252,618	(9,989)
Extracurricular activities . . . . .	487,044	165,452		(321,592)
Interest and fiscal charges . . . . .	171,471			(171,471)
<b>Total governmental activities . . . . .</b>	<b>\$ 13,450,513</b>	<b>\$ 1,042,091</b>	<b>\$ 1,431,293</b>	<b>(10,977,129)</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				2,156,397
Special revenue . . . . .				45,797
Debt service . . . . .				273,504
School district income tax . . . . .				1,546,735
Grants and entitlements not restricted to specific programs . . . . .				6,417,271
Investment earnings . . . . .				38,279
Miscellaneous . . . . .				73,450
<b>Total general revenues . . . . .</b>				<b>10,551,433</b>
Change in net assets . . . . .				(425,696)
<b>Net assets at beginning of year . . . . .</b>				<b>15,584,994</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 15,159,298</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,189,998	\$ 706,856	\$ 1,896,854
Cash with fiscal agent . . . . .		6,106	6,106
Receivables:			
Property taxes . . . . .	2,125,622	303,261	2,428,883
Income taxes . . . . .	524,540		524,540
Accounts . . . . .	237		237
Accrued interest . . . . .	2,482		2,482
Prepayments . . . . .	24,439		24,439
Materials and supplies inventory . . . . .		3,908	3,908
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	5,378		5,378
<b>Total assets . . . . .</b>	<b>\$ 3,872,696</b>	<b>\$ 1,020,131</b>	<b>\$ 4,892,827</b>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 35,968	\$ 4,302	\$ 40,270
Accrued wages and benefits . . . . .	806,436	20,039	826,475
Intergovernmental payable . . . . .	106,370	1,578	107,948
Unearned revenue . . . . .	1,686,207	329,829	2,016,036
Deferred revenue . . . . .	202,655	26,845	229,500
Pension obligation payable . . . . .	246,682	12,571	259,253
<b>Total liabilities . . . . .</b>	<b>3,084,318</b>	<b>395,164</b>	<b>3,479,482</b>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	42,018	30,911	72,929
Reserved for supplies inventory . . . . .		3,908	3,908
Reserved for prepayments . . . . .	24,439		24,439
Reserved for tax revenue unavailable for appropriation . . . . .	239,242	33,772	273,014
Reserved for instructional materials . . . . .	5,378		5,378
Unreserved:			
Designated for budget stabilization . . . . .	200,000		200,000
Undesignated, reported in:			
General fund . . . . .	277,301		277,301
Special revenue funds . . . . .		46,276	46,276
Debt service fund . . . . .		278,902	278,902
Capital projects funds . . . . .		231,198	231,198
<b>Total fund balances . . . . .</b>	<b>788,378</b>	<b>624,967</b>	<b>1,413,345</b>
<b>Total liabilities and fund balances . . . . .</b>	<b>\$ 3,872,696</b>	<b>\$ 1,020,131</b>	<b>\$ 4,892,827</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2010

<b>Total governmental fund balances</b>		\$	1,413,345
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			16,960,658
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	227,018	
Accrued interest receivable		<u>2,482</u>	
Total			229,500
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(19,401)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		(675,954)	
General obligation bonds payable		(2,709,611)	
Capital lease obligation payable		<u>(39,239)</u>	
Total			<u>(3,424,804)</u>
<b>Net assets of governmental activities</b>		<b>\$</b>	<b><u>15,159,298</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes . . . . .	\$ 2,118,587	\$ 315,046	\$ 2,433,633
Income taxes . . . . .	1,546,735		1,546,735
Tuition . . . . .	552,747		552,747
Earnings on investments . . . . .	35,773	2,860	38,633
Charges for services . . . . .		215,299	215,299
Extracurricular . . . . .	210	210,124	210,334
Classroom materials and fees . . . . .		27,945	27,945
Rental income . . . . .	15,892		15,892
Other local revenues . . . . .	93,324		93,324
Intergovernmental - intermediate . . . . .	45,055		45,055
Intergovernmental - state . . . . .	6,382,562	104,125	6,486,687
Intergovernmental - federal . . . . .		1,319,718	1,319,718
Total revenues . . . . .	<u>10,790,885</u>	<u>2,195,117</u>	<u>12,986,002</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	5,205,559	105,098	5,310,657
Special . . . . .	1,192,187	539,893	1,732,080
Vocational . . . . .	156,616	3,601	160,217
Other . . . . .	266,694		266,694
Support services:			
Pupil . . . . .	207,035	2,652	209,687
Instructional staff . . . . .	679,292	7,672	686,964
Board of education . . . . .	79,331		79,331
Administration . . . . .	833,365	44,936	878,301
Fiscal . . . . .	411,135	7,999	419,134
Business . . . . .		27,852	27,852
Operations and maintenance . . . . .	633,618	437,154	1,070,772
Pupil transportation . . . . .	774,290	80,695	854,985
Central . . . . .	37,857		37,857
Operation of non-instructional services . . . . .	97,770	78,530	176,300
Food service operations . . . . .		420,621	420,621
Extracurricular activities . . . . .	252,772	183,515	436,287
Facilities acquisition and construction . . . . .	2,642		2,642
Debt service:			
Principal retirement . . . . .	27,640	140,000	167,640
Interest and fiscal charges . . . . .	4,352	146,188	150,540
Total expenditures . . . . .	<u>10,862,155</u>	<u>2,226,406</u>	<u>13,088,561</u>
Excess of expenditures over revenues . . . . .	<u>(71,270)</u>	<u>(31,289)</u>	<u>(102,559)</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .		55,365	55,365
Transfers (out) . . . . .	<u>(55,365)</u>		<u>(55,365)</u>
Total other financing sources (uses) . . . . .	<u>(55,365)</u>	<u>55,365</u>	
Net change in fund balances . . . . .	(126,635)	24,076	(102,559)
<b>Fund balances at beginning of year . . . . .</b>	<u>915,013</u>	<u>600,891</u>	<u>1,515,904</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 788,378</u>	<u>\$ 624,967</u>	<u>\$ 1,413,345</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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, 2010

<b>Net change in fund balances - total governmental funds</b>	\$	(102,559)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.		
Capital asset additions	\$ 267,370	
Current year depreciation	<u>(690,524)</u>	
Total		(423,154)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(12,066)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	42,065	
Intergovernmental	(2,896)	
Accrued interest	<u>(354)</u>	
Total		38,815
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		167,640
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the following:		
Accretion of interest on "capital appreciation" bonds	<u>(20,931)</u>	
Total		(20,931)
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.		
		<u>(73,441)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(425,696)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,197,000	\$ 2,197,000	\$ 2,133,949	\$ (63,051)
Income taxes . . . . .	1,690,000	1,690,000	1,572,470	(117,530)
Tuition . . . . .	443,000	443,000	552,747	109,747
Earnings on investments . . . . .	43,000	43,000	35,380	(7,620)
Extracurricular . . . . .	500	500	210	(290)
Other local revenues . . . . .	110,500	110,500	92,487	(18,013)
Intergovernmental - intermediate . . . . .	60,000	60,000	54,983	(5,017)
Intergovernmental - state . . . . .	6,779,600	6,779,600	6,384,734	(394,866)
Total revenues . . . . .	<u>11,323,600</u>	<u>11,323,600</u>	<u>10,826,960</u>	<u>(496,640)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,667,135	5,667,135	5,370,422	296,713
Special . . . . .	1,202,085	1,202,085	1,190,584	11,501
Vocational . . . . .	168,422	168,422	159,749	8,673
Other . . . . .	255,671	255,671	245,214	10,457
Support services:				
Pupil . . . . .	214,171	214,171	209,344	4,827
Instructional staff . . . . .	690,356	690,356	675,513	14,843
Board of education . . . . .	89,731	89,731	88,524	1,207
Administration . . . . .	869,885	869,885	839,080	30,805
Fiscal . . . . .	419,817	419,817	415,291	4,526
Operations and maintenance . . . . .	706,672	706,672	642,799	63,873
Pupil transportation . . . . .	794,125	794,125	781,825	12,300
Central . . . . .	43,250	43,250	43,239	11
Operation of non-instructional services . . . . .	134,550	134,550	97,770	36,780
Extracurricular activities . . . . .	275,081	275,081	266,632	8,449
Facilities acquisition and construction . . . . .	1,000	1,000	900	100
Total expenditures . . . . .	<u>11,531,951</u>	<u>11,531,951</u>	<u>11,026,886</u>	<u>505,065</u>
Excess of expenditures over revenues . . . . .	<u>(208,351)</u>	<u>(208,351)</u>	<u>(199,926)</u>	<u>8,425</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	10,000	10,000	17,686	7,686
Transfers (out) . . . . .			(11,169)	(11,169)
Sale of capital assets . . . . .	10,000	10,000	679	(9,321)
Total other financing sources (uses) . . . . .	<u>20,000</u>	<u>20,000</u>	<u>7,196</u>	<u>(12,804)</u>
Net change in fund balance . . . . .	(188,351)	(188,351)	(192,730)	(4,379)
<b>Fund balance at beginning of year . . . . .</b>	<b>1,298,241</b>	<b>1,298,241</b>	<b>1,298,241</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>26,793</b>	<b>26,793</b>	<b>26,793</b>	
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 1,136,683</u></b>	<b><u>\$ 1,136,683</u></b>	<b><u>\$ 1,132,304</u></b>	<b><u>\$ (4,379)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2010

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 67,290	\$ 42,419
Investments . . . . .	11,973	
Total assets. . . . .	79,263	\$ 42,419
<b>Liabilities:</b>		
Accounts payable. . . . .		\$ 220
Due to students. . . . .		42,199
Total liabilities . . . . .		\$ 42,419
<b>Net assets:</b>		
Held in trust for scholarships . . . . .	79,263	
Total net assets . . . . .	\$ 79,263	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 1,567
Gifts and contributions . . . . .	2,992
Extracurricular . . . . .	4
Total additions . . . . .	4,563
<b>Deductions:</b>	
Scholarships awarded . . . . .	17,887
Change in net assets . . . . .	(13,324)
<b>Net assets at beginning of year . . . . .</b>	<b>92,587</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 79,263</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

The District ranks as the 414<sup>th</sup> largest by total enrollment among the 905 public and community school districts in the State. It currently operates 4 instructional facilities. The District employs 47 non-certified and 86 certified employees to provide services to approximately 1,264 students in grades K through 12 and various community groups.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. During the fiscal year, the District paid NOECA \$60,940 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments

The Bay Area Council of Governments consists of school districts representing multiple counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance. The only cost to the districts is an administrative charge if they purchase something through the Council. The District paid \$93,345 to the Bay Area Council of Governments in 2010. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of 1 elected representative from each county, and the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal officer).

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

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Huron-Erie School Employees Insurance Association

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

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HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

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

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

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

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

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

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

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

**D. Basis of Accounting**

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2010 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures for the general fund.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

8. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2010, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
9. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, investments were limited to federal agency securities, negotiable certificates of deposit, shares of common stock (see below) and a money market mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$35,773, which includes \$12,276 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its private-purpose trust fund. No public funds were used to acquire the stock. At June 30, 2010, the common stock value was \$11,973. The amount of common stock available for expenditure is reported in net assets available in trust for scholarships on the statement of fiduciary net assets.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

**G. Inventory**

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. On the fund financial statements inventories are stated at cost and expensed when purchased and cost is determined on a first-in, first-out basis.

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

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

**H. Capital Assets**

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

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

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

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

**I. Compensated Absences**

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees at least age fifty with at least ten years of service or any age with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

**K. Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property tax revenue unavailable for appropriation and textbook/instructional materials. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

under GAAP, but not available for appropriation under State statute. A fund balance designation is reported for amounts set-aside by the District for budget stabilization.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or 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 amount restricted for other purposes includes amounts restricted for textbooks/instructional materials, by the special trust fund (a nonmajor governmental fund) and uniform school supplies fund (a nonmajor governmental fund). The District had no net assets restricted for enabling legislation.

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

**M. Prepayments**

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

**N. Estimates**

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

**O. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook/instructional materials reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 18.

**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 basic financial statements.

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

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

**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. Neither type of transaction occurred during fiscal year 2010.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Management information system	\$ 478
IDEA, Part B	77,631
Title I, disadvantaged children	6,984
Improving teacher quality	145

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim 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 may be deposited or invested in the following securities:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

**A. Cash on Hand**

At fiscal year end, the District had \$37 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$6,106 in cash and cash equivalents held by the North Point Educational Service Center. This amount is included on the balance sheet as "cash with fiscal agent". The North Point Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 40.

**C. Deposits with Financial Institutions**

At June 30, 2010, the carrying amount of all District deposits was \$1,506,947. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, none of the District's bank balance of \$1,652,253 was exposed to custodial risk as discussed below, as the entire balance was covered by the FDIC.

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

**D. Investments**

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>Greater than 24 months</u>
Donated stock	\$ 10,052	\$ 10,052	
Money market mutual fund	1,921	1,921	
Negotiable cd	304,383	100,385	\$ 203,998
MBS Cash	200,574	200,574	
	<u>\$ 516,930</u>	<u>\$ 312,932</u>	<u>\$ 203,998</u>

The weighted average maturity of investments is 1.32 years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

*Interest Rate Risk:* The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy dealing with interest rate risk beyond the requirements of State statute.

*Credit Risk:* The District's investment in common stock was rated A+ by Standard and Poor's.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Donated stock	\$ 10,052	1.94
Money market mutual fund	1,921	0.37
Negotiable cd	304,383	58.89
MBS Cash	<u>200,574</u>	<u>38.80</u>
 Total	 <u>\$ 516,930</u>	 <u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,506,947
Investments	516,930
Cash with fiscal agent	6,106
Cash on hand	<u>37</u>
Total	<u>\$ 2,030,020</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,908,338
Private-purpose trust funds	79,263
Agency funds	<u>42,419</u>
Total	<u>\$ 2,030,020</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 5 - INTERFUND TRANSACTIONS**

Transfers for the fiscal year ended June 30, 2010, as reported in the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 55,365</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collect in the general fund to finance various programs account for in other funds in accordance with budgetary authorizations.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

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

The District receives property taxes from Huron County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$239,242 in the general fund, \$28,929 in the bond retirement debt service fund (a nonmajor governmental fund) and \$4,843 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$254,604 in the general fund, \$32,294 in the bond retirement debt service fund (a nonmajor governmental fund) and \$5,348 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end 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, 2010 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 unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 114,274,900	97.50	\$ 119,264,950	97.60
Public utility personal	<u>2,930,290</u>	<u>2.50</u>	<u>2,930,080</u>	<u>2.40</u>
Total	<u>\$ 117,205,190</u>	<u>100.00</u>	<u>\$ 122,195,030</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$34.15		\$34.05

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

The voters of the District have passed 2 income tax levies. The first income tax levy was passed in May of 1990 and established a 3/4% income tax effective January 1, 1991, for an indefinite period of time. The second income tax levy was passed in March of 1996 and established an additional 1/2% income tax effective January 1, 1998 for an indefinite period of time. School district income tax revenue received by the general fund during fiscal year 2010 was \$1,546,735.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees) and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Property taxes	\$ 2,428,883
Income taxes	524,540
Accounts	237
Accrued interest	<u>2,482</u>
Total	<u>\$ 2,956,142</u>

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

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

**Governmental activities:**

*Capital assets, not being depreciated:*

Land	\$ 351,793			\$ 351,793
Total capital assets, not being depreciated	<u>351,793</u>			<u>351,793</u>

*Capital assets, being depreciated:*

Land improvements	723,192			723,192
Buildings and improvements	21,469,024	\$ 4,100		21,473,124
Furniture and equipment	3,110,319	29,455	\$ (12,341)	3,127,433
Vehicles	985,295	233,815	(183,642)	1,035,468
Total capital assets, being depreciated	<u>26,287,830</u>	<u>267,370</u>	<u>(195,983)</u>	<u>26,359,217</u>

*Less: accumulated depreciation*

Land improvements	(436,529)	(37,620)		(474,149)
Buildings and improvements	(5,579,150)	(478,677)		(6,057,827)
Furniture and equipment	(2,456,829)	(118,540)	275	(2,575,094)
Vehicles	(771,237)	(55,687)	183,642	(643,282)
Total accumulated depreciation	<u>(9,243,745)</u>	<u>(690,524)</u>	<u>183,917</u>	<u>(9,750,352)</u>

Governmental activities capital assets, net	<u>\$ 17,395,878</u>	<u>\$ (423,154)</u>	<u>\$ (12,066)</u>	<u>\$ 16,960,658</u>
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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 409,468
Special	31,850
Vocational	26,015

Support services:

Administration	24,661
Operations and maintenance	53,869
Pupil transportation	55,687
Extracurricular activities	34,113
Food service operations	<u>54,861</u>

Total depreciation expense	<u>\$ 690,524</u>
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**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior years the District has entered into capitalized leases for the acquisition of copiers. The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. The capital lease transaction was accounted for as capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balance of governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

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

Capital assets consisting of office equipment have been capitalized in the amount of \$129,193. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010, was \$75,363, leaving a current book value of \$53,830. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$27,640 in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2010.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)**

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	31,992
2012	<u>9,491</u>
Total minimum lease payments	41,483
Less: amount representing interest	<u>(2,244)</u>
Total	<u>\$ 39,239</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding 06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/10</u>	<u>Amounts Due in One Year</u>
<b>Governmental activities:</b>					
<u>General obligation bonds:</u>					
Series 2000, Construction current interest bonds 5.537%, 12/01/23 maturity	\$ 2,575,000			\$ 2,575,000	
Series 2000, Construction capital appreciation bonds 10.736% (average effective) 12/01/09 and 12/01/10 maturity	96,000		\$ (50,223)	45,777	\$ 45,777
Series 2000, Construction capital appreciation bonds accrued interest	<u>157,680</u>	<u>\$ 20,931</u>	<u>(89,777)</u>	<u>88,834</u>	<u>88,834</u>
Total general obligation bonds	<u>2,828,680</u>	<u>20,931</u>	<u>(140,000)</u>	<u>2,709,611</u>	<u>134,611</u>
<u>Other Obligations:</u>					
Compensated absences	612,513	167,232	(103,791)	675,954	28,569
Capital lease obligation	<u>66,879</u>		<u>(27,640)</u>	<u>39,239</u>	<u>29,935</u>
Total other obligations	<u>679,392</u>	<u>167,232</u>	<u>(131,431)</u>	<u>715,193</u>	<u>58,504</u>
Total long-term obligations, governmental activities	<u>\$ 3,508,072</u>	<u>\$ 188,163</u>	<u>\$ (271,431)</u>	<u>\$ 3,424,804</u>	<u>\$ 193,115</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

*General Obligation Bonds* - During the fiscal year 2001, the District issued general obligation bonds to provide funds for the acquisition, construction and furnishing of new buildings. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.36 mil bonded debt tax levy.

These bonds represent the amount of the construction project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC).

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

This issue is comprised of both current interest bonds, par value \$3,265,000, and capital appreciation bonds, par value \$96,000. The average interest rate on the current interest bonds is 5.537%. In fiscal year 2010, capital appreciation bonds of \$50,223 matured with a total accreted interest of \$89,777. The remaining capital appreciation bonds mature on December 1, 2009 (effective interest 10.736%) and December 1, 2010 (effective interest 10.736%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value of the capital appreciation bond at maturity is \$282,000. Total accreted interest of \$88,834 has been included in the statement of net assets at June 30, 2010. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

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

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2010, are as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

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

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011		\$ 146,188	\$ 146,188	\$ 45,777	\$ 96,223	\$ 142,000
2012	\$ 145,000	142,200	287,200			
2013	140,000	134,362	274,362			
2014	145,000	126,525	271,525			
2015	155,000	118,275	273,275			
2016 - 2020	975,000	439,525	1,414,525			
2021 - 2024	1,015,000	120,605	1,135,605			
Total	<u>\$ 2,575,000</u>	<u>\$ 1,227,680</u>	<u>\$ 3,802,680</u>	<u>\$ 45,777</u>	<u>\$ 96,223</u>	<u>\$ 142,000</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$8,685,333 (including available funds of \$307,831) and an unvoted debt margin of \$122,203.

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences and Retirement Incentive**

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Non-certified employees earn ten to twenty days of vacation per year, depending on the length of service, and cannot be carried forward. Administrators with 260 day contracts earn twenty days of vacation per year and may carry up to ten days forward (balance never to exceed 30 days). Administrators with less than 260 day contracts are not afforded any vacation time.

***Non-Certified Employees***

Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Non-certified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave can be accumulated to a maximum of 240 days.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)**

Non-certified employees must have eight or more years of service with the state and/or any political subdivision, three of which must be with the District. Payment is made for 25 percent of the total sick leave accumulation, up to a maximum accumulation of 60 days severance pay at the daily rate of the employee. A non-certified employee with twenty-five or more years of service in the District will be paid for 50 percent of the total sick leave accumulation, up to a maximum accumulation of 120 days.

***Certified Employees***

Accumulated unused vacation time is paid to certified employees upon termination of employment. Teachers do not earn vacation time. Certified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave can be accumulated to a maximum of 248 days.

Certified employees must have eight or more years of service with the state and/or any political subdivision, four of which must be with the District. Payment is made for 25 percent of the total sick leave accumulation, up to a maximum accumulation of 62 days severance pay at the daily rate of the employee. Certified employees who submit a formal letter of retirement resignation prior to April 1, in their first year of eligibility, will receive a one-time cash payment of \$10,000 in addition to the severance payment the employee is entitled to.

One employee took advantage of the retirement incentive in fiscal year 2010. No liability has been recorded for the retirement incentive payments since the payments were made during the fiscal year.

**B. Health Benefits**

The District joined together with other area school districts to form the Huron-Erie School Employees Insurance Association, a public entity risk management and employee health benefits program for 14 member school districts (See Note 2.A.). The District pays a monthly premium to the pool for health, life and dental insurance, including prescription coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums, and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$200,000 for any employee.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

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HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 13 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2010, the District has contracted with Ohio Casualty to provide general liability, fleet, building and contents coverage.

The District had the following coverages in effect for fiscal year 2010:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	
Aggregate	2,000,000	
Fleet:		
Comprehensive	1,000,000	1,000
Collision	1,000,000	1,000
Building and contents	39,589,092	2,500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2009.

**B. Ohio School Boards Association Workers' Compensation Group Rating Program**

For fiscal year 2010, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$162,769, \$107,324 and \$114,046, respectively; 39.98 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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 a member's lifetime 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 the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**NOTE 14 - PENSION PLANS - (Continued)**

lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$665,147, \$619,638 and \$618,442, respectively; 83.84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$11,439 made by the District and \$8,170 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$29,995, \$74,016 and \$76,870, respectively; 39.98 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$9,680, \$8,855 and \$8,214, respectively; 39.98 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$51,165, \$47,664 and \$45,572, respectively; 83.84 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported on fair value (GAAP basis) rather than cost (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$(192,730)
Net adjustment for revenue accruals	(36,075)
Net adjustment for expenditure accruals	112,605
Net adjustment for other sources/uses	(62,561)
Adjustment for encumbrances	<u>52,126</u>
GAAP basis	<u>\$(126,635)</u>

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

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

**NOTE 18 - STATUTORY RESERVES**

The 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. These amounts must be carried forward to be used for the same purposes in future years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

**NOTE 18 - STATUTORY RESERVES - (Continued)**

During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2009	\$ (20,812)	
Current year set-aside requirement	212,586	\$ 212,586
Capital maintenance levy offset		(43,237)
Debt related offset		(260,012)
Qualifying disbursements	<u>(186,396)</u>	<u>(238,234)</u>
Total	<u>\$ 5,378</u>	<u>\$(328,897)</u>
Balance carried forward to fiscal year 2011	<u>\$ 5,378</u>	

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

The District had qualifying disbursements during the year that raised the set-aside amount above zero for textbooks/instructional materials reserve. The amount is therefore presented as being carried forward to the next fiscal year and will be classified as restricted cash on the governmental funds balance sheet.

A schedule of the restricted assets at June 30, 2010 follows:

Amounts restricted for textbooks/instruction materials	\$ 5,378
--	----------

Effective April 10, 2001, Am. Sub. Senate bill 345 amended Ohio Revised Code Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. Senate Bill 345 places special restrictions on the use of Bureau of Workers Compensation (BWC) Rebate money remaining in the budget stabilization reserve as of April 10, 2001. The District spent this reserve during fiscal year 2009. On February 21, 2007, the Board of Education approved the remaining BWC rebate funds to be designated as included within the current budget stabilization fund balance at the time. Monies set-aside by the School Board for budget stabilization are reported as a designation of fund balance in the general fund. The balance in the budget stabilization designation at June 30, 2010 was \$200,000.

**NOTE 19 - DONOR RESTRICTED ENDOWMENTS**

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>			
<i>Passed through the Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	23,734	23,734
National School Lunch Program			
Non-Cash Assistance (Food Distribution)	10.555	29,945	29,945
Cash Assistance	10.555	200,251	200,251
Total National School Lunch Program		230,196	230,196
Total United States Department of Agriculture		<b>253,930</b>	<b>253,930</b>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>			
<i>Special Education Cluster (IDEA):</i>			
<i>Passed through the North Point Educational Service Center</i>			
Special Education - Preschool Grants (IDEA Preschool)	84.173	7,964	7,964
Special Education - Preschool Grants (IDEA Preschool) - ARRA	84.392	8,490	2,384
Total Special Education - Preschool Grants (IDEA Preschool)		16,454	10,348
<i>Passed through the Ohio Department of Education</i>			
Special Education - Grants to States (IDEA, Part B)	84.027	275,095	275,095
Special Education - Grants to States (IDEA, Part B) - ARRA	84.391	231,994	231,994
Total Special Education - Grants to States (IDEA, Part B)		507,089	507,089
Total - Special Education Cluster		523,543	517,437
<u>Title I, Part A Cluster:</u>			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	132,030	129,044
Title I Grants to Local Educational Agencies - ARRA	84.389	49,607	49,607
Total - Title I, Part A Cluster		181,637	178,651
Safe and Drug Free Schools and Communities - State Grants	84.186	3,247	2,374
Education Technology State Grants	84.318	1,182	1,182
Improving Teacher Quality State Grants	84.367	48,627	48,627
State Fiscal Stabilization Fund (SFSF) - Education State Grants - ARRA (Education Stabilization Fund)	84.394	391,154	391,154
Total United States Department of Education		<b>1,132,936</b>	<b>1,139,425</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b>\$ 1,403,320</b>	<b>\$ 1,393,355</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Western Reserve Local School District's (the District's) Federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends Federal monies first.

**NOTE C - FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 8, 2011. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 8, 2011.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

March 8, 2011



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of the Western Reserve Local School District, Huron County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in findings 2010-001 and 2010-002 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding period of availability of federal funds and activities allowed or unallowed applicable to its State Fiscal Stabilization Fund Grant major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Western Reserve Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2010-003 through 2010-005.

### **Internal Control over Compliance**

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-003 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-001, 2010-002, 2010-004, and 2010-005 to be significant deficiencies.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 8, 2011.

Western Reserve Local School District  
Huron County  
Independent Accountants' Report on Compliance With Requirements  
Applicable to Each Major Federal Program and on Internal Control  
Over Compliance in Accordance With *OMB Circular A-133*  
Page 3

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

March 8, 2011

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	Yes
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified (Special Education Cluster). Qualified (State Fiscal Stabilization Fund).
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392; State Fiscal Stabilization Fund – CFDA 84.394
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

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

<b>Finding Number</b>	2010-001
<b>CFDA Title and Number</b>	State Fiscal Stabilization Fund – CFDA 84.394
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Period of Availability of Federal Funds – Noncompliance/Questioned Cost/Significant Deficiency**

**34 CFR 74.28** states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Secretary. The American Recovery and Reinvestment Act defined the available period as July 1, 2009 through September 30, 2011.

The District charged \$16,404 for utilities received prior to July 1, 2009, to their 2010 State Fiscal Stabilization Fund grant. There were no pre-award costs authorized for the grant.

Total questioned costs for expenditures outside of the period of availability are sixteen thousand four hundred and four dollars (\$16,404) of the \$391,154 spent on the State Fiscal Stabilization Fund grant during 2010.

The District should use grant funds only for expenditures obligated during the period of availability.

<b>Finding Number</b>	2010-002
<b>CFDA Title and Number</b>	State Fiscal Stabilization Fund – CFDA 84.394
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Activities Allowed or Unallowed - Noncompliance/Questioned Cost/Significant Deficiency**

**SEC. 14002(a)(2) of the American Recovery and Reinvestment Act** requires the State to provide funds only to those local educational agencies (LEAs) (including any charter school LEAs) that also receive State funds through the State’s primary elementary and secondary funding formulas when a State awards Education Stabilization funds to LEAs through the State’s primary funding formulas.

The Ohio Department of Education (ODE) distributed State Fiscal Stabilization Funds (SFSF) to local school districts through the State Pathway to Student Success (PASS) system, the State’s primary funding formula.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2010-002 – State Fiscal Stabilization Fund – CFDA 84.394 (Continued)**

Based on SEC. 14002(a)(2) of the American Recovery and Reinvestment Act ODE has determined and outlined in their Education Stabilization General Frequently Asked Questions, that if the District has a contract with another educational entity to provide educational services to their students, these funds can be used to pay for those services. When the payments are transfers of funds that are required by law, the use of SFSF for these expenditures would be a reallocation of the SFSF to another entity. In other words, the District would be creating a sub-subgrant to the other educational entity and this would not be an allowable use.

ODE annually deducts, from the PASS settlement, from each city, exempted village, or local school district, pursuant to Section 3314.08 of the Revised Code, payments on behalf of students enrolled in internet or community-based schools. This deduction is considered a transfer of funds required by law as noted above.

The District charged \$68,913 in deductions withheld from PASS settlements required by Ohio Revised Code § 3314.08 to the State Fiscal Stabilization Fund – Education State Grants, Recovery Act (Education Stabilization Fund) – CFDA #84.394.

Total questioned costs for unallowable activities are sixty eight thousand nine hundred thirteen dollars (\$68,913) of the \$391,154 spent on the State Fiscal Stabilization Fund grant during 2010.

We recommend the Treasurer review requirements related to the State Fiscal Stabilization Fund to ensure charges and disbursements made to it are for allowable activities.

<b>Finding Number</b>	2010-003
<b>CFDA Title and Number</b>	Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Reporting – Noncompliance/Material Weakness**

**34 C.F.R. 80.20(b)(2)** states grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Consolidated Application Assurances item 5 provides that Local Education Agencies (LEAs) will make reports to the Ohio Department of Education (ODE) as may be reasonably necessary to enable ODE to perform its duties. Program funds are reported to the State of Ohio.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2010-003 – Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392 (Continued)**

The following discrepancies were noted between the District's accounting records and amounts reported on the Final Expenditure Report (FER):

<u>Object Code</u>	<u>Amount per District Accounting Records</u>	<u>Amount per FER</u>	<u>Variance</u>
Purchased Services	93,711	81,575	12,136
Supplies	1,219		1,219
Capital Outlay	137,064	150,419	(13,355)
	<u>231,994</u>	<u>231,991</u>	

The failure to accurately report program expenditures could allow for funds to be expended contrary to the approved program budget and expenditures.

Amounts reflected on the FER should be based upon actual expenditures reflected in the District's accounting records. If actual expenditures exceed approved budget amounts, a budget modification should be requested from the ODE.

<b>Finding Number</b>	2010-004
<b>CFDA Title and Number</b>	State Fiscal Stabilization Fund – CFDA 84.394
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Cash Management – Noncompliance/Significant Deficiency**

**34 C.F.R. 80.20(b)(7)** states, in part, when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. State Fiscal Stabilization Fund (SFSF) monies are received in advance by the District through the foundation program as indicated in the Ohio Department of Education (ODE) Pathway to Student Success (PASS) form.

Our review of District SFSF Fund balances and subsequent monthly expenditures revealed three instances in which monies were not expended in a timely manner (i.e., 30 days). The SFSF Fund balance for the applicable months ranged from \$31,154 to \$31,325.

The District should implement an internal control system designed to ensure advance SFSF payments are spent timely.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2010-005
<b>CFDA Title and Number</b>	Special Education Cluster – CFDA 84.027, 84.391, 84.173 and 84.392
<b>Federal Award Number / Year</b>	2010
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Procurement, Suspension, and Debarment – Noncompliance/Significant Deficiency**

**2 C.F.R. Part 180** provides, in part, that Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

The District purchased a special education bus and computer hardware that were greater than \$25,000 using IDEA, Part B ARRA funds. The District did not certify the vendors from which these purchases were made were not suspended or debarred or otherwise excluded. The District should ensure vendors are not suspended, debarred or otherwise excluded by checking the *Excluded Parties List System* (<http://epls.arnet.gov>), obtaining a certification from the vendor, or adding a clause or condition in the contract.

The District should ensure vendors are not suspended, debarred or otherwise excluded by checking the *Excluded Parties List System* (), obtaining a certification from the vendor, or adding a clause or condition in the contract. <http://epls.arnet.gov>

**Officials’ Response:**

We did not receive a response from Officials to the findings reported above.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-001	For FY11, corrective action was taken to directly charge the SFSF fund for those charges that were incurred during the applicable fiscal year. Those charges for utilities that were made in FY10, as stated in the finding, will be credited back to the SFSF fund, and debited to the General Fund. A second adjustment will then be made crediting the General Fund and debiting the SFSF fund using qualified expenditure items.	March, 2011	Brett Robson
2010-002	The FY10 charges reflected in the finding will be credited back to the SFSF fund and debited to the General Fund. A second adjustment will then be made crediting the General Fund and debiting the SFSF fund using qualified expenditure items.  As this practice carried over into FY11, the adjustment process stated above will be applied in similar fashion.	March, 2011	Brett Robson
2010-003	Currently working with Jeff Jordan and Ishq Davis in the ODE Grants Management unit to determine what entries/adjustments need to occur within State Software and/or CCIP to correct for this year.	April, 2011	Brett Robson
2010-004	SFSF Funds will be monitored a charged timely, in accordance with CFR 80.20(b)(7)	March, 2011	Brett Robson
2010-005	The Excluded Party List for the two vendors utilized in the transactions listed in the finding has been searched and found to be not suspended, debarred or otherwise excluded. The Treasurer's Office has provided appropriate staff training regarding when and how the site ( <a href="http://epls.arnet.gov">http://epls.arnet.gov</a> ) is to be utilized going forward.	March, 2011	Brett Robson

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# Dave Yost • Auditor of State

WESTERN RESERVE LOCAL SCHOOL DISTRICT

HURON COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 29, 2011