

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

*GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 1999*

TRIMBLE, JULIAN & GRUBE, INC.

TJG

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

***GENERAL PURPOSE FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 1999***

DIANE WOLF, TREASURER

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

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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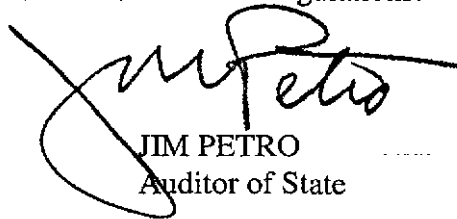
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Board of Education
Western Reserve Local School District
Wakeman, Ohio

We have reviewed the Independent Auditor's Report of the Western Reserve Local School District, Huron County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 1998 to June 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Western Reserve Local School District is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

January 6, 2000

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Independent Auditor's Report

Board of Education
Western Reserve Local School District
28 River Street
Wakeman, Ohio 44889

We have audited the accompanying general purpose financial statements of the Western Reserve Local School District, Huron County, (the "District") as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Western Reserve Local School District, Huron County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 1999 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Trimble, Julian & Grube, Inc.

Trimble, Julian & Grube, Inc.
November 12, 1999

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups			Total (Memorandum Only)		
	General	Special Revenue	Debt Service			Capital Projects	Enterprise	Trust and Agency		General	
										Fixed Assets	Long-Term Obligations
ASSETS AND OTHER DEBITS											
ASSETS:											
Equity in pooled cash and cash equivalents	\$1,007,384	\$114,041	\$346	\$357,354	\$18,497	\$31,446			\$1,529,068		
Equity in pooled cash and cash equivalents - nonexpendable trust fund						51,889			51,889		
Receivables (net of allowances of uncollectibles):											
Taxes - current & delinquent	1,889,080				79				1,889,080		
Accounts	6,027								6,106		
Interfund loan receivable	15,300								15,300		
Due from other governments		125,495			9,127				134,622		
Prepayments									7,194		
Materials and supplies inventory					7,864				7,864		
Restricted assets:											
Equity in pooled cash and cash equivalents	107,135								107,135		
Property, plant and equipment (net of accumulated depreciation where applicable)							\$5,214,586		5,223,590		
OTHER DEBITS:											
Amount available in Debt Service Fund								\$346	346		
Amount to be provided for retirement of General Long-Term Obligations							1,051,242		1,051,242		
Total assets and other debits	\$3,032,120	\$239,536	\$346	\$357,354	\$44,571	\$83,335	\$5,214,586	\$1,051,588	\$10,023,436		

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
 JUNE 30, 1999

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Types	Account Groups			Total (Memorandum Only)		
	General	Special Revenue	Debt Service	Capital Projects			Enterprise	Trust and Agency	General		Fixed Assets	Long-Term Obligations
LIABILITIES, EQUITY AND OTHER CREDITS												
LIABILITIES:												
Accounts payable	\$65,195	\$5,525		\$30,587	\$2,216					\$103,523		
Accrued wages and benefits	588,792	19,863		65	20,232					628,952		
Compensated absences payable	16,669				3,580			\$536,367		556,616		
Interfund loan payable					15,300					15,300		
Pension obligation payable	88,944	1,050			10,434			44,021		144,449		
Due to other governments	21,861									21,861		
Deferred revenue	1,200,267				2,039					1,202,306		
Due to students						\$31,444				31,444		
General obligation bonds payable								471,200		471,200		
Total liabilities	1,981,728	26,438		30,652	53,801	31,444		1,051,588		3,175,651		
EQUITY AND OTHER CREDITS:												
Investment in general fixed assets									\$5,214,586	5,214,586		
Contributed capital									3,444	3,444		
(Accumulated deficit)									(12,674)	(12,674)		
Fund balances:												
Reserved for encumbrances	627	100		3,132						3,859		
Reserved for prepayments	7,194									7,194		
Reserved for debt service							\$346			346		
Reserved for tax revenue unavailable for appropriation	195,979									195,979		
Reserved for principal endowment								41,468		41,468		
Reserved for budget stabilization	88,599									88,599		
Reserved for textbooks	16,676									16,676		
Reserved for capital improvements	1,860									1,860		
Reserved for scholarships								10,421		10,421		
Designated for budget stabilization	236,401									236,401		
Unreserved-undesignated	503,056	212,998		323,570		2				1,039,626		
Total equity and other credits	1,050,392	213,098	346	326,702	(9,230)	51,891		5,214,586		6,847,785		
Total liabilities, equity and other credits	\$3,032,120	\$239,536	\$346	\$357,354	\$44,571	\$83,335		\$5,214,586	\$1,051,588	\$10,023,436		

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$2,744,991					\$2,744,991
Earnings on investments	71,982					71,982
Extracurricular		\$175,636				175,636
Other local revenues	35,641					35,641
Other revenue		1,050				1,050
Intergovernmental - State	4,211,027	32,421		\$127,135		4,370,583
Intergovernmental - Federal		220,604				220,604
Total revenues	7,063,641	429,711		127,135		7,620,487
Expenditures:						
Current:						
Instruction:						
Regular	2,960,312	43,855		125,931		3,130,098
Special	620,568	103,467				724,035
Vocational	117,779					117,779
Other	80,944					80,944
Support services:						
Pupil	204,687					204,687
Instructional staff	346,748	14,366				361,114
Board of Education	14,071					14,071
Administration	566,286					566,286
Fiscal	266,717					266,717
Business	85					85
Operations and maintenance	561,767			33,187		594,954
Pupil transportation	537,249					537,249
Extracurricular activities	95,779	176,164				271,943
Debt service:						
Principal retirement			\$58,900			58,900
Interest and fiscal charges			26,629			26,629
Total expenditures	6,372,992	337,852	85,529	159,118		6,955,491
Excess of revenues over (under) expenditures	690,649	91,859	(85,529)	(31,983)		664,996
Other financing sources (uses):						
Operating transfers in			85,529	304,719		390,248
Operating transfers out	(390,248)					(390,248)
Proceeds from sale of assets	80					80
Total other financing sources (uses)	(390,168)		85,529	304,719		80
Excess of revenues and other financing sources over (under) expenditures and other financing uses	300,481	91,859	0	272,736		665,076
Fund balances, July 1	749,911	121,239	346	53,966	\$2	925,464
Fund balances, June 30	\$1,050,392	\$213,098	\$346	\$326,702	\$2	\$1,590,540

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 1999

	General Fund			Special Revenue			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Budget Revised	Actual	Variance Favorable (Unfavorable)	Budget Revised	Actual	Variance Favorable (Unfavorable)
Revenues:												
From local sources:												
Taxes	\$2,672,971	\$2,671,837	(\$1,134)									
Earnings on investments	67,292	67,263	(29)									
Other local revenues	24,997	24,986	(11)									
Other revenue				\$253,640	\$182,243	(\$71,397)						
Intergovernmental - State				1,061	1,000	(61)						
Intergovernmental - Federal	4,214,900	4,213,111	(1,789)	52,768	37,914	(14,854)	\$120,527	\$120,527	0			
Total revenues	6,980,160	6,977,197	(2,963)	439,920	316,087	(123,833)	120,527	120,527	0	7,540,607	7,413,811	(2,50,629)
Expenditures:												
Current:												
Instruction:												
Regular	3,112,031	2,953,011	159,020	77,728	49,711	28,017	169,244	123,543	45,701	3,359,003	3,126,265	260,755
Special	650,938	617,676	33,262	234,880	106,988	127,892				885,418	724,664	289,046
Vocational	123,127	116,835	6,292							123,127	116,835	6,292
Other	83,896	81,507	4,389							83,896	81,507	4,389
Support services:												
Pupil	217,696	206,572	11,124							217,696	206,572	11,124
Instructional staff	359,213	340,858	18,355	20,640	14,785	5,855				379,453	355,643	30,065
Board of Education	15,260	14,480	780							15,260	14,480	780
Administration	586,249	556,293	29,956							586,249	556,293	29,956
Fiscal	247,988	235,316	12,672							247,988	235,316	12,672
Business	90	85	5							90	85	5
Operations and maintenance	602,444	571,460	30,784				9,446	6,895	2,551	611,890	578,555	33,335
Pupil transportation	669,376	635,172	34,204							669,376	635,172	34,204
Extracurricular activities	101,302	96,125	5,177	225,550	172,539	53,011				326,832	268,664	111,199
Debt service:												
Principal retirement	62,072	58,900	3,172							62,072	58,900	3,172
Interest and fiscal charges	28,063	26,629	1,434							28,063	26,629	1,434
Total expenditures	6,861,745	6,511,119	350,626	558,798	344,023	214,775	178,690	130,438	48,252	7,599,233	6,985,580	828,428
Excess of revenues over (under) expenditures	118,415	466,078	347,663	(118,878)	(27,936)	90,942	(58,163)	(9,911)	48,252	(58,626)	428,231	148,249
Other financing sources (uses):												
Refund of prior year's expenditures												
Transfer in	9,758	9,754	(4)							9,758	9,754	(4)
Advance in	10,000	10,000	0				300,000	304,719	4,719	300,000	304,719	4,719
Operating transfers (out)	(316,155)	(304,719)	11,436						0	10,000	10,000	0
Proceeds of sale of fixed assets	80	80	0							(316,155)	(304,719)	11,436
Total other financing sources (uses)	(296,317)	(284,885)	11,432				300,000	304,719	4,719	80	80	0
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(177,902)	181,193	359,095	(118,878)	(27,936)	90,942	241,837	294,808	52,971	(54,943)	448,065	164,400
Fund balances, July 1	827,063	827,063	0	133,122	133,122	0	53,996	53,996	0	1,014,527	1,014,527	0
Prior year encumbrances appropriated	100,917	100,917	0	8,329	8,329	0	1,199	1,199	0	110,445	110,445	0
Fund balances, June 30	\$790,078	\$1,099,173	\$309,095	\$72,573	\$113,515	\$90,942	\$297,032	\$350,003	\$52,971	\$1,070,079	\$1,573,037	\$164,400

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN (ACCUMULATED DEFICIT)/RETAINED EARNINGS
 PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Operating revenues:			
Tuition and fees	\$39,295		\$39,295
Sales/charges for services	186,253		186,253
Investment earnings		\$2,296	2,296
Donations		16,360	16,360
 Total operating revenues	 <u>225,548</u>	 <u>18,656</u>	 <u>244,204</u>
Operating expenses:			
Personal services	152,732		152,732
Contract services	4,765		4,765
Materials and supplies	151,100		151,100
Depreciation	563		563
 Total operating expenses	 <u>309,160</u>		 <u>309,160</u>
Operating income (loss)	<u>(83,612)</u>	<u>18,656</u>	<u>(64,956)</u>
Nonoperating revenues:			
Operating grants	72,074		72,074
Investment earnings	446		446
Federal commodities	8,954		8,954
 Total nonoperating revenues	 <u>81,474</u>		 <u>81,474</u>
Net income (loss)	<u>(2,138)</u>	<u>18,656</u>	<u>16,518</u>
Addback of depreciation on fixed assets acquired from contributed capital	 182		 182
(Accumulated deficit)/Retained earnings July 1	<u>(10,718)</u>	<u>33,233</u>	<u>22,515</u>
(Accumulated deficit)/Retained earnings June 30	<u>(\$12,674)</u>	<u>\$51,889</u>	<u>\$39,215</u>

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Cash flows from operating activities:			
Cash received from tuition and fees	\$40,239		\$40,239
Cash received from sales/service charges	186,253		186,253
Cash received from other operations		\$16,360	16,360
Cash payments for personal services	(152,686)		(152,686)
Cash payments for contract services	(4,765)		(4,765)
Cash payments materials and supplies	(138,218)		(138,218)
Net cash provided by (used in) operating activities	(69,177)	16,360	(52,817)
Cash flows from noncapital financing activities:			
Cash received from operating grants	80,035		80,035
Cash used for repayment of interfund advances	(10,000)		(10,000)
Net cash provided by noncapital financing activities	70,035		70,035
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(3,627)		(3,627)
Net cash used for capital and related financing activities	(3,627)		(3,627)
Cash flows from investing activities:			
Interest received	446	2,296	2,742
Net cash provided by investing activities	446	2,296	2,742
Net increase (decrease) in cash and cash equivalents	(2,323)	18,656	16,333
Cash and cash equivalents at beginning of year	20,820	33,233	54,053
Cash and cash equivalents at end of year	<u>\$18,497</u>	<u>\$51,889</u>	<u>\$70,386</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	(\$83,612)	\$18,656	(\$64,956)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	563		563
Federal donated commodities	8,954		8,954
Interest reported as operating income		(2,296)	(2,296)
Changes in assets and liabilities:			
Decrease in supplies inventory	7,153		7,153
Decrease in accounts receivable	944		944
Increase in accounts payable	1,080		1,080
Increase in accrued wages & benefits	845		845
Increase in compensated absences payable	278		278
Decrease in pension obligation payable	(1,077)		(1,077)
Decrease in deferred revenue	(4,305)		(4,305)
Net cash provided by (used in) operating activities	<u>(\$69,177)</u>	<u>\$16,360</u>	<u>(\$52,817)</u>

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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 418th largest by total enrollment among the 612 districts in the State. It currently operates four instructional facilities. The District employs 48 non-certified and 82 certified employees to provide services to approximately 1,295 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District:

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

JOINT VENTURE WITHOUT EQUITY INTEREST:

Northern Ohio Educational Computer Association (NOECA)

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

JOINTLY GOVERNED ORGANIZATION:

Bay Area Council of Governments

The Bay Area Council of Governments consists of twenty-six school districts representing seven counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca, and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance. The only cost to the districts is an administrative charge if they purchase something through the Council. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of one elected representative from each county, and the superintendent of the fiscal agent, and two 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.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The General Fund is the general operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include a nonexpendable trust fund, an expendable trust fund and an agency fund. The nonexpendable trust fund is accounted for in essentially the same manner as proprietary funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

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

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for Governmental funds and the Expendable Trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include interest, grants, and accounts (student fees and rent). Property taxes measurable as of June 30, 1999 and delinquent property taxes, whose availability is indeterminate and are intended to finance fiscal 2000 operations, have been recorded as deferred revenues, except for that portion which is available from the County Auditor as advanced as of June 30. In Proprietary funds, unused donated commodities are reported as deferred revenue since title for these commodities do not pass to the District until the commodities are used.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

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

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

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

D. Budgets

The District is required by state statute to adopt an annual appropriation cash basis budget for all funds. The specific timetable for fiscal year 1999 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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 1999.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation measure to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.
6. 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 departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the District during fiscal year 1999 in the following amounts:

	<u>Increase</u>	<u>(Decrease)</u>
General fund	\$870,568	
Special Revenue funds	87,731	
Capital Projects funds		\$(21,970)
Enterprise funds		(16,864)
Nonexpendable Trust fund	450	
Agency fund	<u>2,647</u>	<u> </u>
Total	<u>\$961,396</u>	<u>\$(38,834)</u>

8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at year end, not recognized as accounts payable, appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 13 discloses encumbrances outstanding for Enterprise funds at fiscal year end.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

E. Cash and Investments

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

During 1999, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

Investments are reported at fair value. Fair value is based on quoted market prices.

The District has invested funds in STAR Ohio during 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically related to the nonexpendable trust fund. The following funds were credited with more interest revenue than would have been received based upon their share of the District's investments:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Investments</u>	<u>Interest Assigned By Other Funds</u>
General	\$71,982	\$52,628	\$19,354
Nonexpendable Trust Fund	2,296	2,193	103

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

WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

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

F. Inventory

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District has a policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

2. Proprietary Funds

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

<u>Asset</u>	<u>Life (years)</u>
Buildings	25 - 50
Furniture, Fixtures and Minor Equipment	15 - 20
Vehicles	4 - 6

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

H. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlement

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Disadvantaged Pupil Program

Drug Free Schools

EHA Preschool

Management Information Systems

Title VI-B

Title I

Title VI

Data Communication

Instructional Material Subsidy

Teacher Development

E-Rate Telecommunications

Capital Projects Funds

SchoolNet Plus

SchoolNet

Technology Equity

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

Reimbursable Grants

General Fund

Driver Education
Vocational Education Travel/Salary

Proprietary

National School Lunch Program
National School Breakfast Program
Government Donated Commodities

Grants and entitlements amounted to over 59% of the District's operating revenue during the 1999 fiscal year.

I. Contributed Capital

Contributed capital reported in the Enterprise funds represent resources provided from other funds, other governments, and private sources that is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year end. The amount of depreciation is then "added back" to retained earnings, because the cost of providing services in the Enterprise funds does not include depreciation expense on amounts of contributed capital. See Note 9 for the change in contributed capital during fiscal year 1999.

J. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of as operating transfers.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
4. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.

An analysis of the District's interfund transactions for fiscal year 1999 is presented in Note 5.

K. Compensated Absences

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

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

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

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

L. Long-Term Obligations

Long-term debt is recognized as a liability of a Governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a Governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, debt service, tax revenue unavailable for appropriation, advances, budget stabilization, textbooks and capital improvements. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment and for available cash from which student scholarship awards will be made. The unreserved portions of fund equity reflected for the Governmental funds are available for use within the specific purposes of those funds.

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

N. Statutory Reserves

The District is required by state law to set aside certain (cash-basis) general fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 1999, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside cash balance as of June 30, 1998	\$ 0	\$ 0	\$ 36,044	\$ 36,044
Current year set-aside requirement	105,111	105,111	52,555	262,777
Additional Set-aside by District	(18,171)		236,401	218,230
Qualifying disbursements	<u>(70,264)</u>	<u>(103,251)</u>	<u>0</u>	<u>(173,515)</u>
Total	<u>\$ 16,676</u>	<u>\$ 1,860</u>	<u>\$325,000</u>	<u>\$343,536</u>
Cash balance carried forward to FY 2000	<u>\$ 16,676</u>	<u>\$ 1,860</u>	<u>\$325,000</u>	<u>\$343,536</u>

A schedule of the restricted assets at June 30, 1999 follows:

Amount restricted for textbooks	\$ 16,676
Amount restricted for capital improvements	1,860
Amount restricted for budget stabilization	<u>88,599</u>
Total restricted assets	<u>\$107,135</u>

O. Prepaids

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

P. Statement of Cash Flows

The District's Financial Statements have been prepared in accordance with GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. For purposes of the statement of cash flows, the proprietary funds and nonexpendable trust fund consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District has presented a statement of cash flows for its proprietary funds and nonexpendable trust fund.

Q. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

R. Estimates

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

S. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. See Note 2.N. for statutory reserves.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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

T. Memorandum Only - Total Columns

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

**NOTE 3 - CHANGES IN FINANCIAL STATEMENT PRESENTATION AND OTHER
FUND DISCLOSURES**

A. Change in Accounting Principle

In fiscal 1997, the District implemented GASB Statement No. 32, Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans. Recent changes in the Internal Revenue Code require that deferred compensation plan assets be placed in trust for the exclusive benefit of employees and their beneficiaries by no later than January 1, 1999. Statement No. 32 provides that, upon the transfer of deferred compensation assets to such a trust, the employer is no longer considered the owner of the amounts deferred by employees under the deferred compensation plan. The Ohio Public Employees Deferred Compensation Plan during fiscal 1999 placed assets in trusts to comply with the above requirements, and accordingly, plan assets which totaled \$533,936 as of June 30, 1999 have been excluded from the District's financial statements.

B. Accountability and Compliance

In accordance with the Ohio Revised Code Section 5705.41 the following funds had expenditures plus encumbrances in excess of appropriations for the fiscal year ended June, 30 1999:

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

**NOTE 3 - CHANGES IN FINANCIAL STATEMENT PRESENTATION AND OTHER
FUND DISCLOSURES - (Continued)**

<u>Fund Type/ Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<u>General Fund</u>			
Instructional Staff	\$336,402	\$340,858	\$4,456
Administration	530,192	556,294	26,102
Transfers-Out	5,000	300,000	295,000
<u>Special Revenue Funds</u>			
<u>Activity Fund</u>			
Extracurricular Activities	57,600	62,162	4,562
<u>Disadvantaged Pupil Fund</u>			
Regular Instruction	6,031	10,993	4,962
<u>Ethernet Connection</u>			
Regular Instruction	0	6,681	6,681
<u>Miscellaneous State Grant Funds</u>			
Regular Instruction	500	7,946	7,446
<u>Capital Projects Fund</u>			
<u>Technology Equity Fund</u>			
Regular Instruction	0	6,608	6,608

Disclosure is presented at the function level within the fund rather than at the object level within the fund due to the practicality of determining these values.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

**NOTE 3 - CHANGES IN FINANCIAL STATEMENT PRESENTATION AND OTHER
FUND DISCLOSURES - (Continued)**

C. Deficit Fund Balances

Fund balances/retained earnings at June 30, 1999 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Drug-Free School Grant	\$ (7)
EHA Preschool Grants	(12)
<u>Enterprise Funds</u>	
Food Service	(9,607)
Uniform School Supplies	(3,067)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end. These deficit balances are caused by the application of GAAP, namely in the reporting of a liability for accrued wages and retirement obligations attributable to the fiscal year. These deficits will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

D. Agency Funds

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

<u>ASSETS</u>	
Accounts receivable	\$20
<u>LIABILITIES</u>	
Accounts payable	\$1,746

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories:

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end the carrying amount of the District's deposits was \$41,426 and the bank balance was \$66,142 (both amounts are exclusive of payroll clearance accounts). The bank balance covered by federal depository insurance.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Fair Value
Repurchase Agreement	\$1,389,060	\$1,389,060
Not Subject to Categorization		
Investment in State		
Treasurer's Investment Pool		<u>257,606</u>
Total Investments	<u>\$1,389,060</u>	<u>\$1,646,666</u>

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

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

	Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 1,688,092	\$ 0
Investments of the Cash		
Management Pool:		
Repurchase Agreement	(1,389,060)	1,389,060
State Treasurer's Investment Pool	<u>(257,606)</u>	<u>257,606</u>
GASB Statement No. 3	<u>\$ 41,426</u>	<u>\$1,646,666</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the District's operating transfers for fiscal year 1999:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund</u>		\$(390,248)
<u>Debt Service Fund</u>	\$ 85,529	
<u>Capital Projects Fund</u>		
Permanent Improvement	<u>304,719</u>	_____
Totals	<u>\$390,248</u>	<u>\$(390,248)</u>

NOTE 6 - PROPERTY TAXES

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

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

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

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed value upon which the fiscal year 1999 taxes were collected was \$72,164,560. Agricultural/Residential and public utility real estate represented 78.5% or \$56,676,740 of this total; Commercial & Industrial real estate represented 8.3% or \$5,990,870 of this total; public utility tangible represented 6.2% or \$4,463,490 of this total and general tangible property 7.0% or \$5,033,460 of this total. The voted general tax rate for operations at the fiscal year ended June 30, 1999 was \$26.60 per \$1,000.00 of assessed valuation.

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 1999, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999 consisted of taxes, accounts (rent and student fees), interfunas and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current & delinquent	\$1,889,080
Accounts	6,027
 <u>Special Revenue Fund</u>	
Due From Other Governments	125,495

NOTE 8 - FIXED ASSETS

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

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 1999</u>
Land/Improvements	\$ 64,241			\$ 64,241
Buildings/Improvements	2,710,135	\$ 62,099		2,772,234
Furniture/Equipment	1,567,290	106,933		1,674,223
Vehicles	616,471	254,128	\$(166,711)	703,888
 Total	 <u>\$ 4,958,137</u>	 <u>\$423,160</u>	 <u>\$(166,711)</u>	 <u>\$5,214,586</u>

A summary of the enterprise funds' fixed assets at June 30, 1999 follows:

Furniture and equipment	\$ 80,782
Less: accumulated depreciation	<u>(71,778)</u>
Net fixed assets	<u>\$ 9,004</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 9 - CONTRIBUTED CAPITAL

The following is a reconciliation of the change in the contributed capital for the Food Service fund:

Contributed Capital at Beginning of Year	\$ 0
Contributed Capital Acquired During Year	3,626
Depreciation on Fixed Assets Acquired by Contributed Capital	<u>(182)</u>
Contributed Capital at End of Year	<u>\$3,444</u>

NOTE 10 - SCHOOL DISTRICT INCOME TAX

The voters of the District have passed two 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 1999 was \$1,228,328.

NOTE 11 - LONG-TERM DEBT

During fiscal year 1998, the District issued a capital improvements general obligation bond to provide funds for the replacement of the roof on the high school and middle school complex. This bond is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, the unmatured obligation of the District is accounted for in the general long-term obligations account group. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund.

A. The following is a description of the District's bond outstanding as of June 30, 1999:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	Bond <u>Outstanding July 1, 1998</u>	Retired <u>In 1999</u>	Bond <u>Outstanding June 30, 1998</u>
Capital Improvements	5.200%	10/01/96	12/01/06	<u>\$530,100</u>	<u>\$58,900</u>	<u>\$471,200</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 11 - LONG-TERM DEBT - (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bond:

Year Ending <u>June 30</u>	Principal on General Obligation <u>Bond</u>	Interest on General Obligation <u>Bond</u>	<u>Total</u>
2000	\$ 58,900	\$ 22,971	\$ 81,871
2001	58,900	19,908	78,808
2002	58,900	16,845	75,745
2003	58,900	13,783	72,683
2004	58,900	10,720	69,620
2005 - 2007	<u>176,700</u>	<u>13,782</u>	<u>190,482</u>
Total	<u>\$471,200</u>	<u>\$98,009</u>	<u>\$569,209</u>

C. During the year ended June 30, 1999, the following changes occurred in liabilities reported in the general long-term obligations account groups. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	Balance <u>July 1, 1998</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 1999</u>
Compensated absences	\$ 427,546	\$142,241	\$ (33,420)	\$ 536,367
Pension obligation payable	54,892	44,021	(54,892)	44,021
General obligation bond payable	<u>530,100</u>	<u> </u>	<u>(58,900)</u>	<u>471,200</u>
Total	<u>\$1,012,538</u>	<u>\$186,262</u>	<u>\$(147,212)</u>	<u>\$1,051,588</u>

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 1999 are a voted debt margin of \$6,023,956 (including available funds of \$346) and an unvoted debt margin of \$72,165.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 1999, the District has contracted with Nationwide Insurance Company to provide general liability and fleet coverage and the Indiana Insurance Company to provide building and contents coverage.

The District had the following coverages in effect for fiscal year 1999:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	\$ 2,000,000	\$ 0
Each occurrence	\$ 5,000,000	\$ 0
Aggregate		
Fleet:	1,000,000	50
Comprehensive	1,000,000	250
Collision		
Building and contents	10,412,524	\$500

Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Health Benefits

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. OSBA Group Workers Compensation Rating Program

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

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 worker's compensation experience of the participating school districts is calculated as one and a common premium rate is applied to all participants in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 1999.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total</u>
Operating revenue	\$186,253	\$39,295	\$225,548
Depreciation	563		563
Operating Income (loss)	(84,117)	505	(83,612)
Operating grants	72,074		72,074
Federal donated commodities	8,954		8,954
Net Income (loss)	(2,643)	505	(2,138)
Net working capital	6,195	(3,067)	3,128
Total assets	42,338	2,233	44,571
Long-term liabilities payable from fund revenues	11,362		11,362
Total equity	(6,163)	(3,067)	(9,230)
Contributed Capital	3,444		3,444
Encumbrances outstanding as of June 30, 1999		273	273

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$111,440, \$108,165, and \$109,116, respectively; 60 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$44,778, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$468,792, \$456,724, and \$414,972, respectively; 84 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$75,952, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1998, the Board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve fund. Beginning July 1, 1998, this allocation was increased to 8 percent. For the District, this amount equaled \$267,881 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998. As of July 1, 1998, eligible benefit recipients totaled 91,999. For the fiscal year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$60,226 during the 1999 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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).

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$181,193	\$(27,936)	\$ 0	\$294,808
Net adjustment for revenue accruals	86,444	113,624		1,889
Net adjustment for expenditure accruals	137,500	5,621	(85,529)	(36,007)
Net adjustment for other sources/uses	(105,283)		85,529	4,719
Adjustment for encumbrances	<u>627</u>	<u>550</u>	<u> </u>	<u>7,327</u>
GAAP basis	<u>\$300,481</u>	<u>\$ 91,859</u>	<u>\$ 0</u>	<u>\$272,736</u>

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 1999.

B. Litigation

The District is party to legal proceedings. The District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$4,186,099 of school foundation total support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of June 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 17 - CONTINGENCIES - (Continued)

As of the date of these financial statements, the School District is unable to determine the effect if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE 18 - YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations as early as fiscal year 1999.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits and the State of Ohio Education Management and Information System (EMIS) for its education statistics reporting. The State is responsible for remediating these systems.

The Ohio Department of Education, Division of Information Management Services, State Software Development Team has addressed the status of the OECN State Software in regards to the compliance requirements for the Year 2000. Their assessment is as follows:

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.
- The accounting software supported with the OECN State Software is compliant with the Year 2000 beginning with the June 1998 release of USAS V6.1.
- The education management information system software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

NOTE 18 - YEAR 2000 ISSUE - (Continued)

The State of Ohio distributes a substantial sum of money to the District in the form of basic state aid "school foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

The District elected a new Board member in the November election.

The District passed a \$3,361,000 bond issue to build a new elementary school.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

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.

By: Susan Babbitt

Date: JAN 18 2000

SCHEDULE OF FINDINGS

**Western Reserve Local School District
Huron County
June 30, 1999**

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

Finding Number	1999-47746-001
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Ohio Revised Code Section 5705.41 requires in part that no subdivision is to expend monies unless it has been appropriated.

It was noted during the audit that the District had expenditures plus encumbrances in excess of appropriations in the following funds:

<u>Fund Type/ Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<u>General Fund</u>			
Instructional Staff	\$336,402	\$340,858	\$4,456
Administration	530,192	556,294	26,102
Transfers-Out	5,000	300,000	295,000
<u>Special Revenue Funds</u>			
<u>Activity Fund</u>			
Extracurricular Activities	57,600	62,162	4,562
<u>Disadvantaged Pupil Fund</u>			
Regular Instruction	6,031	10,993	4,962
<u>Ethernet Connection</u>			
Regular Instruction	0	6,681	6,681
<u>Miscellaneous State Grant Funds</u>			
Regular Instruction	500	7,946	7,446
<u>Capital Projects Fund</u>			
<u>Technology Equity Fund</u>			
Regular Instruction	0	6,608	6,608

With expenditures plus encumbrances exceeding appropriations, the District is unlawfully expending monies that have not been approved.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continued basis and making appropriation amendments as necessary.

TRIMBLE, JULIAN & GRUBE, INC.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Education
Western Reserve Local School District
28 River Street
Wakeman, Ohio 44889

We have audited the general purpose financial statements of Western Reserve Local School District as of and for the year ended June 30, 1999, and have issued our report thereon dated November 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Western Reserve Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1999-47746-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Western Reserve Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Western Reserve Local School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 1999-47746-001.

Board of Education
Western Reserve Local School District
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Western Reserve Local School District in a separate letter dated November 12, 1999.

This report is intended for the information and use of the management and Board of Education of the Western Reserve Local School District, Huron County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.

Trimble, Julian & Grube, Inc.
November 12, 1999