



**Auditor of State
Betty Montgomery**

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 22, 2005

Western Reserve Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

This discussion and analysis of Western Reserve Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets decreased by \$514,692.
- Revenues for governmental activities totaled \$6,162,631 in 2004. Of this total, 84 percent consisted of general revenues while program revenues accounted for the balance of 16 percent.
- Program expenses totaled \$6,677,323. Instructional expenses made up 52 percent of this total while support services accounted for 39 percent. Other expenses rounded out the remaining 9 percent.
- General revenues totaled \$5,182,706. Of this total, \$2,136,390 or 41 percent was derived from property taxes, \$3,006,498 or 58 percent from state entitlements and grants and \$39,818 or 1 percent was derived from interest and other miscellaneous revenues.
- The general fund balance was \$398,389 on a budget basis at fiscal year end, down from \$624,534 at June 30, 2003.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Western Reserve Local School District, the general fund and the permanent improvement capital projects fund are the most significant funds.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially in 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1
 Net Assets
 Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$3,137,396	\$3,312,537
Capital Assets	2,509,969	2,723,154
<i>Total Assets</i>	<i>5,647,365</i>	<i>6,035,691</i>
Liabilities		
Current Liabilities	3,016,475	2,850,820
Long-Term Liabilities		
Due within One Year	76,748	30,998
Due in More than One Year	442,798	527,837
<i>Total Liabilities</i>	<i>3,536,021</i>	<i>3,409,655</i>
Net Assets		
Invested in Capital Assets		
Net of Related Debt	2,509,969	2,723,154
Restricted for:		
Capital Projects	315,903	219,874
Debt Service	8,802	8,462
Other Purposes	11,505	36,594
Set Asides	160,782	107,461
Unrestricted (Deficit)	(895,617)	(469,509)
<i>Total Net Assets</i>	<i>\$2,111,344</i>	<i>\$2,626,036</i>

Total assets decreased by \$388,326. The majority of this decrease can be directly attributed to an additional year of depreciation on capital assets.

Total liabilities increased by \$126,366. The increase in liabilities was due to increased insurance premiums and negotiated wage increases.

By comparing assets and liabilities, one can see the overall position of the School District has slightly declined as evidenced by the decrease in net assets of \$514,692. The decrease in unrestricted net assets of \$426,108 was due primarily to an increase in insurance premiums and negotiated wage increases.

Western Reserve Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$5,182,706 or 84 percent of the total revenue. The most significant portion of the general revenue is state entitlements and grants. The remaining amount of revenue received was in the form of program revenues, which equated to \$979,925 or 16 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future fiscal years, when prior year information is available, a comparative analysis of data will be presented.

Table 2
Change in Net Assets
Governmental Activities

	<u>2004</u>
Revenues	
<i>Program Revenues</i>	
Charges for Services and Sales	\$593,500
Operating Grants and Contributions	360,408
Capital Grants and Contributions	26,017
<i>Total Program Revenues</i>	<u>979,925</u>
<i>General Revenues</i>	
Property Taxes	2,136,390
Intergovernmental	3,006,498
Investment Earnings	10,801
Miscellaneous	29,017
<i>Total General Revenues</i>	<u>5,182,706</u>
<i>Total Revenues</i>	<u>6,162,631</u>
<i>Program Expenses</i>	
Current:	
Instruction:	
Regular	2,785,151
Special	591,156
Vocational	99,277
Adult/Continuing	20,350
Support Services:	
Pupil	243,942
Instructional Staff	464,636
Board of Education	26,897
Administration	748,098
Fiscal	240,062
Business	7,745

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 (continued)
 Change in Net Assets
 Governmental Activities

	2004
<i>Program Expenses</i>	
Current:	
Operation and Maintenance of Plant	\$515,448
Pupil Transportation	345,163
Central	23,796
Operation of Food Services	279,531
Extracurricular Activities	283,695
Interest and Fiscal Charges	2,376
<i>Total Program Expenses</i>	6,677,323
<i>Decrease in Net Assets</i>	(514,692)
Net Assets Beginning of Year	2,626,036
<i>Net Assets End of Year</i>	\$2,111,344

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five fiscal years. The School District passed a 5.6 mill emergency levy on November 2, 2004 which will generate \$425,000 annually. This levy should help alleviate the deficit in the general fund.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Approximately 52 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass 39 percent. The remaining amount of program expenses, 9 percent, is budgeted to pay for other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

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

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services	Net Cost of Services
Program Expenses		
Instruction:		
Regular	\$2,785,151	\$2,541,753
Special	591,156	452,186
Vocational	99,277	91,972
Adult/Continuing	20,350	(739)
Support Services:		
Pupil	243,942	187,498
Instructional Staff	464,636	419,678
Board of Education	26,897	24,919
Administration	748,098	666,722
Fiscal	240,062	222,500
Business	7,745	1,394
Operation and Maintenance of Plant	515,448	478,883
Pupil Transportation	345,163	302,884
Central	23,796	22,046
Food Service Operation	279,531	83,967
Extracurricular Activities	283,695	199,359
Interest and Fiscal Charges	2,376	2,376
<i>Total Expenditures</i>	\$6,677,323	\$5,697,398

As one can see, the reliance upon grants and entitlements for governmental activities is crucial. Over 45 percent of expenses are directly supported by grants and entitlements. Local tax monies support 32 percent of expenses and program revenues support the remaining expenses.

The School District's Funds

Information regarding the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,194,505 to offset expenditures of \$6,477,262. The net change in fund balance for the year was most significant in the general fund, which decreased \$367,339. This was mostly due to the use of the cash reserve for increased operating expenditures. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, grants and entitlements and property taxes are the School District's largest revenue sources. They account for 53 and 35 percent of total governmental revenue, respectively, and are a great source of financial support for the students of the Western Reserve Local School District.

The general fund concluded the fiscal year with a deficit fund balance of \$247,680. The School District passed a \$425,000 emergency levy on the November 2004 ballot which should help alleviate this deficit.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District required one amendment to its original general fund appropriations in the amount of \$93,447, from \$5,684,565 to \$5,591,118. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

For the general fund, actual revenue totaled \$110,588 more than original estimates. This increase in revenue is due to local property tax money being in excess of the County Auditor's estimate and to an increase in open enrollment student tuition. Actual expenditures totaled \$93,447 less than original appropriations. This difference was due to overall conservative spending by all School District personnel.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$2,509,969 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003:

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

	2004	2003
Land	\$28,935	\$28,935
Buildings and Improvements	1,560,271	1,671,967
Furniture and Equipment	367,247	406,192
Vehicles	120,420	487,143
Textbooks	433,096	128,917
<i>Total</i>	\$2,509,969	\$2,723,154

All capital assets, except land, are reported net of depreciation. As one can see, a decrease in capital assets during the fiscal year occurred in all categories due to the annual depreciation. For more information about the School District's capital assets, see Note 9 to the basic financial statements.

Debt

The School District had no outstanding general obligation debt at June 30, 2004. For more information on the School District's long-term obligations, see Note 17 to the basic financial statements.

Western Reserve Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

School District Outlook

The Western Reserve Local School District has continued to maintain a high level of service to our students, parents and community. The Western Reserve Local School District has earned an "Excellent" rating on the State rating scale with scores in the top 15 percent of the State. The School District's average cost per pupil is 14 percent below the County average and 22 percent below the State average. The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast and are doing everything in their power to make sure tax dollars are being used efficiently and effectively.

The financial future of the School District is not without its challenges. The District's required five-year forecast is grim. The School District is not anticipating any meaningful growth in State revenue due to uncertainties surrounding the State budget and the outcome of the State's unconstitutional educational funding system. Therefore the School District relies heavily on its taxpayers to support its operations. Passage rates on levies are declining and it is becoming increasingly more difficult to secure the local support as evidenced by the failure of 5.7 mill emergency levies which would have generated \$425,000 in the November 2003 and March 2004 elections.

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

Contacting the School District's Financial Management

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

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Western Reserve Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$800,281
Accounts Receivable	3,124
Intergovernmental Receivable	17,423
Prepaid Items	20,919
Inventory Held for Resale	3,855
Materials and Supplies Inventory	59,241
Property Taxes Receivable	2,232,553
Nondepreciable Capital Assets	28,935
Depreciable Capital Assets, Net	<u>2,481,034</u>
<i>Total Assets</i>	<u>5,647,365</u>
Liabilities	
Accounts Payable	2,176
Accrued Wages Payable	563,730
Intergovernmental Payable	220,852
Matured Compensated Absences Payable	56,355
Special Termination Benefits Payable	10,000
Deferred Revenue	2,163,309
Claims Payable	53
Long-Term Liabilities:	
Due Within One Year	76,748
Due In More Than One Year	<u>442,798</u>
<i>Total Liabilities</i>	<u>3,536,021</u>
Net Assets	
Invested in Capital Assets	2,509,969
Restricted for:	
Capital Projects	315,903
Debt Service	8,802
Other Purposes	11,505
Set-asides	160,782
Unrestricted (Deficit)	<u>(895,617)</u>
<i>Total Net Assets</i>	<u><u>\$2,111,344</u></u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,785,151	\$202,144	\$24,204	\$17,050	(\$2,541,753)
Special	591,156	35,750	103,220	0	(452,186)
Vocational	99,277	7,305	0	0	(91,972)
Adult/Continuing	20,350	0	21,089	0	739
Support Services:					
Pupil	243,942	14,796	41,648	0	(187,498)
Instructional Staff	464,636	30,183	14,775	0	(419,678)
Board of Education	26,897	1,978	0	0	(24,919)
Administration	748,098	70,865	10,511	0	(666,722)
Fiscal	240,062	17,562	0	0	(222,500)
Business	7,745	15	6,336	0	(1,394)
Operation and Maintenance of Plant	515,448	36,565	0	0	(478,883)
Pupil Transportation	345,163	23,869	9,443	8,967	(302,884)
Central	23,796	1,750	0	0	(22,046)
Operation of Food Services	279,531	132,340	63,224	0	(83,967)
Extracurricular Activities	283,695	18,378	65,958	0	(199,359)
Interest and Fiscal Charges	2,376	0	0	0	(2,376)
Totals	\$6,677,323	\$593,500	\$360,408	\$26,017	(5,697,398)

General Revenues

Property Taxes Levied for:

General Purposes	1,910,820
Capital Outlay	225,570
Grants and Entitlements not Restricted to Specific Programs	3,006,498
Investment Earnings	10,801
Miscellaneous	29,017

Total General Revenues 5,182,706

Change in Net Assets (514,692)

Net Assets Beginning of Year - See Note 3 2,626,036

Net Assets End of Year \$2,111,344

See accompanying notes to the basic financial statements

Western Reserve Local School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$248,148	\$292,561	\$78,746	\$619,455
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	160,782	0	0	160,782
Receivables:				
Taxes	2,042,311	190,242	0	2,232,553
Accounts	1,453	0	1,671	3,124
Intergovernmental	7,120	0	10,303	17,423
Prepaid Items	20,919	0	0	20,919
Inventory Held for Resale	0	0	3,855	3,855
Materials and Supplies Inventory	58,964	0	277	59,241
<i>Total Assets</i>	<u>\$2,539,697</u>	<u>\$482,803</u>	<u>\$94,852</u>	<u>\$3,117,352</u>
Liabilities				
Accounts Payable	\$1,005	\$0	\$1,171	\$2,176
Accrued Wages Payable	540,976	0	22,754	563,730
Intergovernmental Payable	136,730	0	5,222	141,952
Matured Compensated Absences Payable	56,355	0	0	56,355
Special Termination Benefits Payable	10,000	0	0	10,000
Deferred Revenue	2,042,311	190,242	0	2,232,553
<i>Total Liabilities</i>	<u>2,787,377</u>	<u>190,242</u>	<u>29,147</u>	<u>3,006,766</u>
Fund Balances				
Reserved for Encumbrances	9,536	0	2,708	12,244
Reserved for Bus Purchase	27,534	0	0	27,534
Reserved for Textbooks	65,935	0	0	65,935
Reserved for Budget Stabilization	67,313	0	0	67,313
Unreserved:				
Undesignated, Reported in:				
General Fund (Deficit)	(417,998)	0	0	(417,998)
Debt Service Fund	0	0	8,802	8,802
Special Revenue Funds	0	0	37,133	37,133
Capital Projects Funds	0	292,561	17,062	309,623
<i>Total Fund Balances (Deficit)</i>	<u>(247,680)</u>	<u>292,561</u>	<u>65,705</u>	<u>110,586</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,539,697</u>	<u>\$482,803</u>	<u>\$94,852</u>	<u>\$3,117,352</u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances	\$110,586
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,509,969
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.	69,244
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(78,900)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	19,991
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(465,807)
Special Termination Benefits Payable	(53,739)
Total	(519,546)
<i>Net Assets of Governmental Activities</i>	\$2,111,344

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$1,939,741	\$228,523	\$0	\$2,168,264
Intergovernmental	2,985,332	29,793	278,382	3,293,507
Interest	10,801	0	0	10,801
Tuition and Fees	417,088	0	0	417,088
Extracurricular Activities	0	0	25,351	25,351
Rentals	1,426	0	342	1,768
Contributions and Donations	488	0	98,928	99,416
Charges for Services	0	0	149,293	149,293
Miscellaneous	28,696	0	321	29,017
<i>Total Revenues</i>	<u>5,383,572</u>	<u>258,316</u>	<u>552,617</u>	<u>6,194,505</u>
Expenditures				
Current:				
Instruction:				
Regular	2,529,827	0	42,458	2,572,285
Special	481,812	0	105,105	586,917
Vocational	105,875	0	0	105,875
Adult/Continuing	0	0	20,350	20,350
Support Services:				
Pupil	206,040	0	41,878	247,918
Instructional Staff	394,344	0	14,665	409,009
Board of Education	26,882	0	0	26,882
Administration	718,241	0	52,678	770,919
Fiscal	246,564	0	0	246,564
Business	191	0	7,554	7,745
Operation and Maintenance of Plant	492,867	0	0	492,867
Pupil Transportation	306,688	0	9,500	316,188
Central	23,796	0	0	23,796
Operation of Food Services	0	0	224,607	224,607
Extracurricular Activities	178,218	0	70,738	248,956
Capital Outlay	0	174,008	0	174,008
Debt Service:				
Interest and Fiscal Charges	0	2,376	0	2,376
<i>Total Expenditures</i>	<u>5,711,345</u>	<u>176,384</u>	<u>589,533</u>	<u>6,477,262</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(327,773)</u>	<u>81,932</u>	<u>(36,916)</u>	<u>(282,757)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	687	0	0	687
Transfers In	0	0	40,253	40,253
Transfers Out	(40,253)	0	0	(40,253)
<i>Total Other Financing Sources (Uses)</i>	<u>(39,566)</u>	<u>0</u>	<u>40,253</u>	<u>687</u>
<i>Net Change in Fund Balances</i>	(367,339)	81,932	3,337	(282,070)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>119,659</u>	<u>210,629</u>	<u>62,368</u>	<u>392,656</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$247,680)</u>	<u>\$292,561</u>	<u>\$65,705</u>	<u>\$110,586</u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$282,070)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	10,199
Current Year Depreciation	<u>(223,048)</u>

Total (212,849)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (336)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues were attributed to property taxes. (31,874)

Some expenses reported in the statement of activities, such as compensated absences, contractually required pension contributions and special termination benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	64,978
Pension Obligation	(28,853)
Special Termination Benefits Payable	<u>(25,689)</u>

Total 10,436

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 2,001

Change in Net Assets of Governmental Activities (\$514,692)

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$1,911,422	\$1,939,741	\$1,939,741	\$0
Intergovernmental	2,902,648	2,978,212	2,978,212	0
Interest	11,104	11,269	11,287	18
Tuition and Fees	410,910	416,998	416,998	0
Rentals	1,047	1,063	1,063	0
Contributions and Donations	482	488	488	0
Miscellaneous	27,787	28,199	28,199	0
<i>Total Revenues</i>	<u>5,265,400</u>	<u>5,375,970</u>	<u>5,375,988</u>	<u>18</u>
Expenditures				
Current:				
Instruction:				
Regular	2,542,322	2,500,529	2,500,529	0
Special	474,219	466,423	466,423	0
Vocational	105,960	104,218	104,218	0
Support Services:				
Pupil	208,438	205,012	205,012	0
Instructional Staff	400,162	393,584	393,584	0
Board of Education	24,484	24,082	24,082	0
Administration	657,548	646,739	646,739	0
Fiscal	247,377	243,310	243,310	0
Business	194	191	191	0
Operation and Maintenance of Plant	508,622	500,261	500,261	0
Pupil Transportation	310,651	305,544	305,544	0
Central	24,112	23,716	23,716	0
Extracurricular Activities	180,476	177,509	177,509	0
<i>Total Expenditures</i>	<u>5,684,565</u>	<u>5,591,118</u>	<u>5,591,118</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(419,165)</u>	<u>(215,148)</u>	<u>(215,130)</u>	<u>18</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	687	687	0
Transfers Out	(40,253)	(40,253)	(40,253)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(40,253)</u>	<u>(39,566)</u>	<u>(39,566)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(459,418)</u>	<u>(254,714)</u>	<u>(254,696)</u>	<u>18</u>
<i>Fund Balance Beginning of Year</i>	624,534	624,534	624,534	0
Prior Year Encumbrances Appropriated	28,551	28,551	28,551	0
<i>Fund Balance End of Year</i>	<u>\$193,667</u>	<u>\$398,371</u>	<u>\$398,389</u>	<u>\$18</u>

See accompanying notes to the basic financial statements

Western Reserve Local School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$20,044
Liabilities	
Claims Payable	<u>53</u>
Net Assets	
Unrestricted	<u><u>\$19,991</u></u>

See accompanying notes to the basic financial statements

Western Reserve Local School District
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2004*

	Insurance
Operating Revenues	
Charges for Services	\$7,055
Operating Expenses	
Purchased Services	904
Claims	4,150
<i>Total Operating Expenses</i>	5,054
<i>Change in Net Assets</i>	2,001
<i>Net Assets Beginning of Year</i>	17,990
<i>Net Assets End of Year</i>	\$19,991

See accompanying notes to the basic financial statements

Western Reserve Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Insurance
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$7,055
Cash Payments for Goods and Services	(904)
Cash Payments for Claims	(4,222)
<i>Net Increase in Cash and Cash Equivalents</i>	1,929
<i>Cash and Cash Equivalents Beginning of Year</i>	18,115
<i>Cash and Cash Equivalents End of Year</i>	\$20,044
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$2,001
Adjustments:	
Decrease in Claims Payable	(72)
<i>Net Cash Provided by Operating Activities</i>	\$1,929
 See accompanying notes to the basic financial statements	

Western Reserve Local School District

Statement of Fiduciary Net Assets

Agency Funds

June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,941</u>
Liabilities	
Undistributed Monies	\$1,653
Due to Students	<u>15,288</u>
<i>Total Liabilities</i>	<u><u>\$16,941</u></u>

See accompanying notes to the basic financial statements

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Western Reserve Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government. The School District is located in Berlin Center, Ohio, Mahoning County. The School District provides educational services as mandated by state and/or federal agencies. The Board of Education controls the School District's three instructional/support facilities staffed by 32 classified employees, 56 certified employees and 4 administrators who provide services to 845 students and other community members.

Reporting Entity

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

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

The School District participates in two jointly governed organizations and two public entity risk pools. These organizations are the Mahoning County Career and Technical Center, Area Cooperative Computerized Educational Service System, Mahoning County Schools Employee Insurance Consortium and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 10 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses.

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

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

B. Fund Accounting

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

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

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

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

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

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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

Fiduciary Fund Types Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities.

C. Measurement Focus

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. During fiscal year 2004, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$10,801, which includes \$5,140 assigned from other School District funds.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by State statute to be set-aside for the purchase of textbooks and to create a reserve for budget stabilization. See Note 19 for additional information regarding set asides.

J. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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

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

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

K. Compensated Absences

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

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds from which the employees who have accumulated the leave are paid.

L. Accrued Liabilities and Long-term Obligations

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

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

M. Net Assets

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

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

N. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, bus purchase, textbooks and budget stabilization.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

R. Estimates

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

Note 3 - Change in Accounting Principle and Restatement of Fund Balance

Changes in Accounting Principles For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School District.

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

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

Restatement of Fund Balance It was determined that enterprise funds should be reclassified and reported as special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$116,711	\$210,629	\$66,902	\$394,242
Fund Reclassification	0	0	(22,239)	(22,239)
Overstatement of Intergovernmental Payable	0	0	5,604	5,604
Understatement of Materials and Supplies Inventory	0	0	796	796
Interpretation 6: Compensated Absences Payable	<u>2,948</u>	<u>0</u>	<u>11,305</u>	<u>14,253</u>
Adjusted Fund Balances, June 30, 2003	<u>\$119,659</u>	<u>\$210,629</u>	<u>\$62,368</u>	392,656
GASB 34 Adjustments:				
Capital Assets				2,723,154
Internal Service Fund				17,990
Pension Obligations				(50,047)
Long-Term Liabilities:				
Compensated Absences				(530,785)
Special Termination Benefits Payable				(28,050)
Long-Term (Deferred) Assets				<u>101,118</u>
Governmental Activities Net Assets, June 30, 2003				<u>\$2,626,036</u>

Note 4 – Fund Deficits

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

General Fund	\$247,680
Special Revenue Funds:	
Food Service	8,512
EMIS	1,540
Summer Intervention	197
Title VI-B	699
Title I	577
Reducing Class Size	245

The general fund concluded fiscal year 2004 with a deficit balance of \$247,680. The deficit resulted from the conversion to generally accepted accounting principals and adjustments for accrued liabilities. The School District is aware of the deficit and passed an emergency levy on the November 2004 ballot. The School District will receive \$425,000 annually beginning in fiscal year 2005 which should help alleviate this deficit.

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 5 - Budgetary Basis of Accounting

While the School District is reporting its financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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

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

Net Change in Fund Balance	
GAAP Basis	(\$367,339)
Net Adjustment for Revenue Accruals	(7,584)
Net Adjustment for Expenditure Accruals	130,768
Adjustment for Encumbrances	<u>(10,541)</u>
Budget Basis	<u><u>(\$254,696)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies to 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 School District, and must be purchased with the expectation that it will be held until maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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."

Western Reserve Local School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

Deposits At year end, the carrying amount of the School District's deposits was \$817,222 and the bank balance was \$1,022,196. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$922,196 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution trust department or agent in the School District's name all State statutory requirements for the deposit of money have been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Insurance Corporation.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Mahoning County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

At year-end the School District requested, received and appropriated \$1,460,000 available as an advance. At June 30, 2003 the School District requested, received and appropriated \$1,405,000 available as an advance.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$66,625,700	88.63 %	\$67,893,570	88.81 %
Public Utility Personal	4,846,150	6.45	4,856,810	6.35
Tangible Personal Property	3,699,110	4.92	3,698,544	4.84
Total	<u>\$75,170,960</u>	<u>100.00 %</u>	<u>\$76,448,924</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$45.05		\$45.05	

Note 8 - Receivables

Receivables at June 30, 2004 consisted of property taxes, accounts (billings for user charged services and student fees), intergovernmental grants, and interest. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivable follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Federal Lunchroom Reimbursement	\$10,303
Bureau of Workers Compensation Refunds	<u>7,120</u>
Total	<u>\$17,423</u>

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/04</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	<u>\$28,935</u>	<u>\$0</u>	<u>\$0</u>	<u>\$28,935</u>
Capital assets being depreciated				
Buildings and improvements	4,927,466	0	0	4,927,466
Furniture, fixtures and equipment	1,124,292	10,199	(2,957)	1,131,534
Vehicles	144,981	0	0	144,981
Textbooks	<u>490,000</u>	<u>0</u>	<u>0</u>	<u>490,000</u>
Total capital assets being depreciated	<u>6,686,739</u>	<u>10,199</u>	<u>(2,957)</u>	<u>6,693,981</u>
Accumulated depreciation				
Buildings and improvements	(3,255,499)	(111,696)	0	(3,367,195)
Furniture, fixtures and equipment	(718,100)	(48,808)	2,621	(764,287)
Vehicles	(16,064)	(8,497)	0	(24,561)
Textbooks	<u>(2,857)</u>	<u>(54,047)</u>	<u>0</u>	<u>(56,904)</u>
Total accumulated depreciation	<u>(3,992,520)</u>	<u>(223,048) *</u>	<u>2,621</u>	<u>(4,212,947)</u>
Capital assets being depreciated, net	<u>2,694,219</u>	<u>(212,849)</u>	<u>(336)</u>	<u>2,481,034</u>
Governmental activities capital assets, net	<u><u>\$2,723,154</u></u>	<u><u>(\$212,849)</u></u>	<u><u>(\$336)</u></u>	<u><u>\$2,509,969</u></u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$133,362
Special	76
Support Services:	
Pupil	563
Instructional Staff	22,891
Administration	3,521
Fiscal	797
Operation and Maintenance of Plant	10,699
Pupil Transportation	6,520
Operation of Food Services	25,656
Extracurricular Activities	18,963
Total Depreciation Expense	<u><u>\$223,048</u></u>

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 10 - Jointly Governed Organizations

A. Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a political subdivision of the State of Ohio operated under the direction of a Board consisting of the five members of the Mahoning County Educational Service Center Governing Board, representing the eleven local school districts, and one representative from each of the two city school districts. During fiscal year 2004, no monies were received from the School District. To obtain financial information write to the Treasurer at the Mahoning County Career and Technical Center, 7300 North Palmyra Road, Canfield, Ohio 44406.

B. Area Cooperative Computerized Educational Service System

The Area Cooperative Computerized Educational Service System (ACCESS) is a computer network which provides data services to twenty-eight school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based on a per pupil charge. Western Reserve Local School District paid \$23,717 to ACCESS during fiscal year 2004. ACCESS is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting and designating management. All of ACCESS revenues are generated from charges for services and State funding. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Youngstown, Ohio 44512.

Note 11 - Risk Management

A. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

B. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Nationwide Insurance and the Ohio School Plan for various types of insurance as follows:

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Coverage	Amount	Deductible
Building and Contents-replacement cost	\$16,622,300	\$5,000
Boilers, Machinery/Equipment Breakdown	100,000	1,500
Money and Securities	25,000	1,000
Automobile Liability	1,000,000	1,000
Uninsured Motorists	250,000	1,000
Excess Auto and Excess Liability		
Per occurrence	2,000,000	0
Total per year	2,000,000	0
General Liability		
Per occurrence	1,000,000	0
Total per year	3,000,000	0
Violence	1,000,000	0

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

C. Employee Medical Benefits

The School District has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, prescription drug, and dental benefits. The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County school districts. Rates are set through an annual calculation process. The Western Reserve Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/surgical premiums of \$1,116.95 for family coverage and \$451.34 for single coverage per employee per month. The School District pays \$60.94 for family dental coverage or \$26.57 for single dental coverage and \$243.87 for family and \$107.01 for single prescription drug coverage per month.

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

The claims liability of \$53 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Changes in the fund's claims liability amount in 2003 and 2004 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$262	\$4,183	\$4,320	\$125
2004	125	4,150	4,222	53

Note 12 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$61,657, \$44,278 and \$29,694 respectively; 65.0 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003 and 2002 were \$343,221, \$330,796, and \$227,403 respectively; 77.2 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$4,277 made by the School District and \$4,337 made by the plan members.

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$26,402 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

Western Reserve Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$54,954.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 14 - Employee Benefits

A. Life Insurance

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

B. Compensated Absences

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

Note 15 - Interfund Transfers

The only transfer made during fiscal year 2004 was \$40,253 from the general fund. The food service and educational management information system special revenue funds received \$28,813 and \$11,440, respectively. The transfer made to the food service fund was to help cover health care expenses in the fund and the transfer to the educational management information system fund was made to help pay salaries and fringe benefits.

Western Reserve Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 16 – Short-term Debt

The School District’s short-term debt activity, including the amount and interest rate are as follows:

		Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04
1995 Energy Conservation Loan	6.25%	\$41,693	\$0	\$41,693	\$0

The liability was reflected in the permanent improvement capital projects fund, the fund which received the proceeds. The loan was paid in full during fiscal year 2004.

Note 17 - Long-term Obligations

The changes in the School District’s long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts due in One Year
Governmental-Type Activities					
Compensated Absences	\$530,785	\$25,406	\$90,384	\$465,807	\$41,748
Special Termination Benefits Payable	28,050	53,739	28,050	53,739	35,000
<i>Total Governmental Long-Term Obligations</i>	<u>\$558,835</u>	<u>\$79,145</u>	<u>\$118,434</u>	<u>\$519,546</u>	<u>\$76,748</u>

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

The School District’s overall legal debt margin was \$6,889,205 with an unvoted debt margin of \$764,489 at June 30, 2004.

Note 18 - Public Entity Risk Pools

A. Shared Risk Pool

Mahoning County Schools Employee Insurance Consortium The School District participates in the Mahoning County Schools Employee Insurance Consortium. This is a shared risk pool comprised of thirteen Mahoning County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. A member can withdraw from participation in the Consortium by notifying the fiscal agent on or before January 15 of the year preceding the fiscal year in which the School District will withdraw. If the School District withdraws, no further contribution would be made, but the benefits under the insurance contract shall be paid in accordance of the terms of the contract.. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

Western Reserve Local School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Insurance Purchasing Pool

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

Note 19 - Set-Aside Calculations and Fund Reserves

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continue to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance June 30, 2003	\$21,581	\$0	\$67,313
Current year set-aside requirement	114,619	114,619	0
Qualifying disbursements	(70,265)	(165,329)	0
Totals	<u>\$65,935</u>	<u>(\$50,710)</u>	<u>\$67,313</u>
Set-aside balance carried forward to future fiscal years	<u>\$65,935</u>	<u>(\$0)</u>	<u>\$67,313</u>
Set-aside reserve balance June 30, 2004	<u>\$65,935</u>	<u>\$0</u>	<u>\$67,313</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. This extra amount may not be used to reduce the set-aside requirement for future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$133,248.

Note 20 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Western Reserve Local School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

B. Litigation

The Western Reserve Local School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School 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 School District.

Note 21 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 22 – Subsequent Event

On November 2, 2004, the residents of the School District approved a 5.6 mill emergency levy designated for current operating expenses. Tax revenue from this levy will first be received in January 2005.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Western Reserve Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2005, wherein we noted that the District implemented GASB 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated February 22, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated February 22, 2005.

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

This report is intended solely for the information and use of management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 22, 2005



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

WESTERN RESERVE LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**