



Dave Yost • Auditor of State

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which resulted in reclassifications to its governmental fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 2, 2012

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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, 2011. 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 2011 are as follows:

- In total, net assets increased by \$710,630.
- Revenues for governmental activities totaled \$8,765,173 in 2011. Of this total, 79.1 percent consisted of general revenues while program revenues accounted for the balance of 20.9 percent.
- Program expenses totaled \$8,054,543. Instructional expenses made up 51.5 percent of this total while support services accounted for 35.6 percent. Other expenses rounded out the remaining 12.9 percent.
- General revenues totaled \$6,932,232. Of this total, \$3,345,386 or 48.3 percent was derived from property taxes, \$3,491,689 or 50.4 percent from state entitlements and grants and \$95,157 or 1.3 percent was derived from interest and other miscellaneous revenues.
- The general fund balance was \$1,776,865 on a budget basis at fiscal year end, a slight increase from \$1,775,467 at June 30, 2010.

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, the bond retirement debt service fund and the classroom facilities capital projects fund are the most significant funds.

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 2011?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The government-wide financial statements include not only the activity of the Western Reserve Local School District itself (known as the primary government), but also a separate community school, the Western Reserve Kindergarten Learning Academy, for which the District is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. 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 only major governmental funds are the general fund, the bond retirement debt service fund and the classroom facilities 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
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 2011 compared to 2010:

Table 1
Net Assets
Governmental Activities

| | 2011 | 2010 | Change |
|---------------------------------|---------------------|---------------------|--------------------|
| Assets | | | |
| Current and Other Assets | \$13,412,168 | \$27,983,339 | (\$14,571,171) |
| Capital Assets | 21,598,816 | 8,962,635 | 12,636,181 |
| <i>Total Assets</i> | <u>35,010,984</u> | <u>36,945,974</u> | <u>(1,934,990)</u> |
| Liabilities | | | |
| Current Liabilities | 5,825,476 | 8,303,207 | (2,477,731) |
| Long-Term Liabilities | | | |
| Due within One Year | 214,108 | 248,358 | (34,250) |
| Due in More than One Year | 11,363,824 | 11,497,463 | (133,639) |
| <i>Total Liabilities</i> | <u>17,403,408</u> | <u>20,049,028</u> | <u>(2,645,620)</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net | 10,660,694 | 2,382,117 | 8,278,577 |
| Restricted | 6,411,388 | 14,004,212 | (7,592,824) |
| Unrestricted | 535,494 | 510,617 | 24,877 |
| <i>Total Net Assets</i> | <u>\$17,607,576</u> | <u>\$16,896,946</u> | <u>\$710,630</u> |

Total assets decreased by \$1,934,990. The majority of this decrease can be attributed to the decrease in receivables related to the grant monies received from the State of Ohio for the construction of new school buildings through the Ohio Schools Facilities Commission (OSFC). The District received over 2 million in grant monies related to this project during fiscal year 2011, however over 11 million was spent on construction related activities during the fiscal year, resulting in an overall decrease in cash and cash equivalents.

Total liabilities decreased by \$2,645,620. The overall decrease in liabilities was due to a decrease in contracts payable related to the construction project, as well as a reduction in outstanding bonds payable due to current year payments being made.

By comparing assets and liabilities, one can see the overall position of the School District has increased as evidenced by the overall increase in net assets of \$710,630. The decrease in restricted net assets of \$7,592,824 was due primarily to decreases in cash on hand and OSFC grant monies received.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$6,932,232 or 79.1 percent of the total revenue. The most significant portion of the general revenue consists of property taxes and State grants and entitlements. The remaining amount of revenue received was in the form of program revenues, which equated to \$1,832,941 or 20.9 percent of total revenue.

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

Table 2
Change in Net Assets
Governmental Activities

| | 2011 | 2010 | Change |
|-----------------------------------------|---------------------|---------------------|------------------|
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services and Sales | \$1,048,764 | \$1,029,415 | \$19,349 |
| Operating Grants and Contributions | 784,177 | 667,949 | 116,228 |
| <i>Total Program Revenues</i> | <u>1,832,941</u> | <u>1,697,364</u> | <u>135,577</u> |
| General Revenues | | | |
| Property Taxes | 3,345,386 | 3,356,201 | (10,815) |
| Intergovernmental | 3,491,689 | 3,425,480 | 66,209 |
| Investment Earnings | 44,129 | 154,028 | (109,899) |
| Miscellaneous | 51,028 | 65,544 | (14,516) |
| <i>Total General Revenues</i> | <u>6,932,232</u> | <u>7,001,253</u> | <u>(69,021)</u> |
| <i>Total Revenues</i> | <u>8,765,173</u> | <u>8,698,617</u> | <u>66,556</u> |
| Program Expenses | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 3,143,778 | 3,161,622 | (17,844) |
| Special | 875,984 | 739,345 | 136,639 |
| Vocational | 118,121 | 121,286 | (3,165) |
| Adult/Continuing | 11,389 | 5,700 | 5,689 |
| Other | 2,508 | 0 | 2,508 |
| Support Services: | | | |
| Pupils | 366,994 | 369,519 | (2,525) |
| Instructional Staff | 381,781 | 402,141 | (20,360) |
| Board of Education | 23,266 | 23,199 | 67 |
| Administration | 696,300 | 665,198 | 31,102 |
| Fiscal | 344,217 | 235,503 | 108,714 |
| Business | 26,735 | 27,159 | (424) |
| Operation and Maintenance of Plant | 528,037 | 426,937 | 101,100 |
| Pupil Transportation | 479,660 | 455,389 | 24,271 |
| Central | 18,204 | 18,204 | 0 |
| Operation of Non-Instructional Services | 1,641 | 0 | 1,641 |
| Operation of Food Services | 234,122 | 226,992 | 7,130 |
| Extracurricular Activities | 341,096 | 389,520 | (48,424) |
| Interest and Fiscal Charges | 460,710 | 597,184 | (136,474) |
| <i>Total Program Expenses</i> | <u>8,054,543</u> | <u>7,864,898</u> | <u>189,645</u> |
| <i>Change in Net Assets</i> | 710,630 | 833,719 | (123,089) |
| Net Assets Beginning of Year | 16,896,946 | 16,063,227 | 833,719 |
| <i>Net Assets End of Year</i> | <u>\$17,607,576</u> | <u>\$16,896,946</u> | <u>\$710,630</u> |

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five fiscal years. The certified negotiated union contract, effective through fiscal year 2013, includes a 1.25 percent increase in September of 2010, a 1.50 percent increase in September of 2011, and a 2.0 percent increase in September of 2012. The classified employee negotiated contract is effective through fiscal year 2011 and includes a 4 percent increase in July of 2008, a 3 percent increase in July of 2009, and a 2.5 percent increase in July of 2010. Based on the renewal of all expiring levies and a slight increase projected from the State in its next budget, the School District will be able to operate without a deficit in the general fund as projected in the School Districts five year forecast until fiscal year 2013.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Approximately 51 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass 36 percent. The remaining amount of program expenses, 13 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.

Table 3
Total and Net Cost of Program Services
Governmental Activities

| | 2011 | | 2010 | |
|-----------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Program Expenses | | | | |
| Instruction | \$4,151,780 | \$3,052,708 | \$4,027,953 | \$3,126,461 |
| Support Services: | | | | |
| Pupils | 366,994 | 316,517 | 369,519 | 313,362 |
| Instructional Staff | 381,781 | 327,650 | 402,141 | 350,625 |
| Board of Education | 23,266 | 20,312 | 23,199 | 20,277 |
| Administration | 696,300 | 605,758 | 665,198 | 540,754 |
| Fiscal | 344,217 | 302,745 | 235,503 | 207,949 |
| Business | 26,735 | 25,771 | 27,159 | 26,949 |
| Operation and Maintenance of Plant | 528,037 | 469,169 | 426,937 | 364,373 |
| Pupil Transportation | 479,660 | 425,431 | 455,389 | 326,133 |
| Central | 18,204 | 15,893 | 18,204 | 15,912 |
| Operation of Non-Instructional Services | 1,641 | 0 | 0 | 0 |
| Operation of Food Services | 234,122 | 6,201 | 226,992 | 1,491 |
| Extracurricular Activities | 341,096 | 192,737 | 389,520 | 276,064 |
| Interest and Fiscal Charges | 460,710 | 460,710 | 597,184 | 597,184 |
| <i>Total Expenses</i> | <u>\$8,054,543</u> | <u>\$6,221,602</u> | <u>\$7,864,898</u> | <u>\$6,167,534</u> |

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The School District's Funds

Information regarding the School District's major fund begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, excluding other financing sources, of \$10,883,158 to offset expenditures, excluding other financing uses, of \$20,860,832. The net change in fund balance for the year was most significant in the classroom facilities capital projects fund, which decreased \$9,807,447. The general fund balance decreased \$34,649 and the bond retirement debt service fund balance increased \$42,426.

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 approximately 59.0 and 30.3 percent of total governmental revenue, respectively, and are a great source of financial support for the students of the Western Reserve Local School District.

General Fund Budgeting Highlights

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

For the general fund, actual budget basis revenue matched final budget estimates. Original budget estimates of \$6,294,576 were less than the final budget estimates and actual revenues of \$6,232,344, by \$62,232. The variance was due to a conservative approach of estimating revenues at the beginning of the year.

Actual budget basis expenditures of \$6,190,110, excluding transfers and advances, matched final budget expenditures of \$6,190,110. Original budget basis expenditures, excluding transfers and advances, of \$6,495,157 differed from final budget expenditures by \$305,047.

Capital Assets and Debt Administration

At the end of fiscal year 2011, the School District had \$21,598,816 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2011 balances compared to fiscal year 2010:

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

| | 2011 | 2010 |
|----------------------------|---------------------|--------------------|
| Land | \$28,935 | \$28,935 |
| Construction in Progress | 19,206,352 | 6,285,654 |
| Land Improvements | 25,961 | 28,821 |
| Buildings and Improvements | 1,514,099 | 1,676,635 |
| Furniture and Equipment | 451,064 | 457,765 |
| Vehicles | 309,424 | 360,280 |
| Textbooks | 62,981 | 124,545 |
| <i>Total</i> | <u>\$21,598,816</u> | <u>\$8,962,635</u> |

Western Reserve Local School District
Mahoning County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

All capital assets, except land, are reported net of depreciation. As one can see, capital assets increased during the fiscal year by \$12,636,181 due to capital assets additions of \$12,943,269 exceeding current year depreciation of \$307,088. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

Debt

At June 30 2011, the District had general obligation bonds in the amount of \$10,963,692 outstanding. This balance included serial and term bonds of \$10,720,000, a premium of \$149,958, capital appreciation bonds of \$68,164 and accretion on the capital appreciation bonds of \$25,570. The District made its scheduled payment of \$190,000 during the fiscal year and is scheduled to make a payment of \$200,000 next fiscal year. For more information on the School District's long-term obligations, see Note 17 to the basic financial statements.

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 earned an "Excellent" rating on the State rating scale for eight consecutive years, fiscal year 2002 through fiscal year 2009. In fiscal year 2010 the District earned an "Excellent with Distinction" rating, meeting 26 out of the 26 State indicators. For fiscal year 2011, the District again earned an "Excellent" rating. The School District's average cost per pupil is \$9,023, compared to the State average of \$10,571. The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast and are doing everything in their power to make sure tax dollars are being used efficiently and effectively.

The financial future of the School District is not without its challenges. The School District is not anticipating any growth in State revenue, as evidenced by the current year's unpredictable budget. Not only is there no increase for our School District but very possibly the District will have a reduction in funding. There is not an outcome of the State's educational funding system that was declared unconstitutional in 1997. Ohio is still in the process of trying to adjust its school-funding model. Therefore the School District relies heavily on its taxpayers to support its operations. Due to economic conditions, it is becoming increasingly more difficult to secure the local support.

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 23203, or by email at wres_ceb@access-k12.org.

Western Reserve Local School District

Mahoning County, Ohio

Statement of Net Assets

June 30, 2011

| | <u>Primary Government</u> | |
|-------------------------------------------------|------------------------------------|---------------------------|
| | <u>Governmental Activities</u> | <u>Component Unit</u> |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$9,358,020 | \$3,155 |
| Accrued Interest Receivable | 11,279 | 0 |
| Accounts Receivable | 35,138 | 0 |
| Intergovernmental Receivable | 352,945 | 0 |
| Property Taxes Receivable | 3,575,461 | 0 |
| Inventory Held for Resale | 929 | 0 |
| Materials and Supplies Inventory | 78,396 | 0 |
| Nondepreciable Capital Assets | 19,235,287 | 0 |
| Depreciable Capital Assets, Net | 2,363,529 | 63,199 |
| <i>Total Assets</i> | <u>35,010,984</u> | <u>66,354</u> |
| Liabilities | | |
| Accounts Payable | 23,682 | 16,301 |
| Accrued Wages and Benefits Payable | 552,048 | 0 |
| Contracts Payable | 1,499,734 | 0 |
| Intergovernmental Payable | 197,662 | 0 |
| Matured Compensated Absences Payable | 35,400 | 0 |
| Deferred Revenue | 3,311,456 | 0 |
| Accrued Interest Payable | 205,494 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 214,108 | 0 |
| Due In More Than One Year | 11,363,824 | 0 |
| <i>Total Liabilities</i> | <u>17,403,408</u> | <u>16,301</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 10,660,694 | 63,199 |
| Restricted for: | | |
| Capital Projects | 5,462,757 | 0 |
| Debt Service | 544,257 | 0 |
| Other Purposes | 154,274 | 3,155 |
| Set-asides | 250,100 | 0 |
| Unrestricted (Deficit) | 535,494 | (16,301) |
| <i>Total Net Assets</i> | <u>\$17,607,576</u> | <u>\$50,053</u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District

Mahoning County, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2011

| | Net (Expense) Revenue and Changes in Net Assets | | | | | |
|-------------------------------------------------------------|----------------------------------------------------|--------------------------------------|------------------------------------------|-------------------------------------|-----------------------|-------------------|
| | Program Revenues | | | | Primary Government | Component Unit |
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | | |
| Governmental Activities | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$3,143,778 | \$349,721 | \$391,001 | \$0 | (\$2,403,056) | \$0 |
| Special | 875,984 | 78,350 | 256,674 | 0 | (540,960) | 0 |
| Vocational | 118,121 | 14,942 | 0 | 0 | (103,179) | 0 |
| Adult/Continuing | 11,389 | 367 | 5,471 | 0 | (5,551) | 0 |
| Other | 2,508 | 0 | 2,546 | 0 | 38 | 0 |
| Support Services: | | | | | | |
| Pupils | 366,994 | 45,477 | 5,000 | 0 | (316,517) | 0 |
| Instructional Staff | 381,781 | 37,145 | 16,986 | 0 | (327,650) | 0 |
| Board of Education | 23,266 | 2,954 | 0 | 0 | (20,312) | 0 |
| Administration | 696,300 | 85,542 | 5,000 | 0 | (605,758) | 0 |
| Fiscal | 344,217 | 41,472 | 0 | 0 | (302,745) | 0 |
| Business | 26,735 | 964 | 0 | 0 | (25,771) | 0 |
| Operation and Maintenance of Plant | 528,037 | 58,868 | 0 | 0 | (469,169) | 0 |
| Pupil Transportation | 479,660 | 53,236 | 993 | 0 | (425,431) | 0 |
| Central | 18,204 | 2,311 | 0 | 0 | (15,893) | 0 |
| Operation of Non-Instructional Services | 1,641 | 0 | 1,641 | 0 | 0 | 0 |
| Operation of Food Services | 234,122 | 129,056 | 98,865 | 0 | (6,201) | 0 |
| Extracurricular Activities | 341,096 | 148,359 | 0 | 0 | (192,737) | 0 |
| Interest and Fiscal Charges | 460,710 | 0 | 0 | 0 | (460,710) | 0 |
| <i>Total Governmental Activities</i> | <u>\$8,054,543</u> | <u>\$1,048,764</u> | <u>\$784,177</u> | <u>\$0</u> | <u>(6,221,602)</u> | <u>0</u> |
| Component Unit: | | | | | | |
| Kindergarten Learning Academy | <u>\$275,274</u> | <u>\$828</u> | <u>\$122,965</u> | <u>\$0</u> | 0 | (151,481) |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 2,569,447 | 0 |
| Debt Service | | | | | 608,310 | 0 |
| Capital Outlay | | | | | 121,602 | 0 |
| Other Purposes | | | | | 46,027 | 0 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 3,491,689 | 176,535 |
| Investment Earnings | | | | | 44,129 | 32 |
| Miscellaneous | | | | | 51,028 | 0 |
| <i>Total General Revenues</i> | | | | | <u>6,932,232</u> | <u>176,567</u> |
| Change in Net Assets | | | | | 710,630 | 25,086 |
| <i>Net Assets Beginning of Year</i> | | | | | 16,896,946 | 24,967 |
| <i>Net Assets End of Year</i> | | | | | <u>\$17,607,576</u> | <u>\$50,053</u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

Balance Sheet
Governmental Funds
June 30, 2011

| | General | Bond Retirement | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------|--------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,565,289 | \$496,849 | \$6,365,819 | \$643,936 | \$9,071,893 |
| Accrued Interest Receivable | 205 | 0 | 11,074 | 0 | 11,279 |
| Accounts Receivable | 34,822 | 0 | 0 | 316 | 35,138 |
| Intergovernmental Receivable | 1,121 | 0 | 336,928 | 14,896 | 352,945 |
| Property Taxes Receivable | 2,714,344 | 657,304 | 0 | 203,813 | 3,575,461 |
| Inventory Held for Resale | 0 | 0 | 0 | 929 | 929 |
| Materials and Supplies Inventory | 78,173 | 0 | 0 | 223 | 78,396 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 250,100 | 0 | 0 | 0 | 250,100 |
| <i>Total Assets</i> | <u>\$4,644,054</u> | <u>\$1,154,153</u> | <u>\$6,713,821</u> | <u>\$864,113</u> | <u>\$13,376,141</u> |
| Liabilities | | | | | |
| Accounts Payable | \$23,682 | \$0 | \$0 | \$0 | \$23,682 |
| Accrued Wages and Benefits Payable | 516,495 | 0 | 0 | 35,553 | 552,048 |
| Contracts Payable | 0 | 0 | 1,475,902 | 23,832 | 1,499,734 |
| Intergovernmental Payable | 176,665 | 0 | 0 | 20,997 | 197,662 |
| Matured Compensated Absences Payable | 35,400 | 0 | 0 | 0 | 35,400 |
| Deferred Revenue | 2,714,344 | 657,304 | 336,928 | 205,653 | 3,914,229 |
| <i>Total Liabilities</i> | <u>3,466,586</u> | <u>657,304</u> | <u>1,812,830</u> | <u>286,035</u> | <u>6,222,755</u> |
| Fund Balances | | | | | |
| Nonspendable | 78,173 | 0 | 0 | 1,152 | 79,325 |
| Restricted | 182,787 | 496,849 | 4,900,991 | 551,803 | 6,132,430 |
| Committed | 67,313 | 0 | 0 | 51,449 | 118,762 |
| Assigned | 35,606 | 0 | 0 | 0 | 35,606 |
| Unassigned | 813,589 | 0 | 0 | (26,326) | 787,263 |
| <i>Total Fund Balances</i> | <u>1,177,468</u> | <u>496,849</u> | <u>4,900,991</u> | <u>578,078</u> | <u>7,153,386</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$4,644,054</u> | <u>\$1,154,153</u> | <u>\$6,713,821</u> | <u>\$864,113</u> | <u>\$13,376,141</u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011*

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Total Governmental Fund Balances | \$7,153,386 |
| <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. | 21,598,816 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | |
| Property Taxes | 264,005 |
| Intergovernmental Grants | 1,840 |
| OSFC Grants | <u>336,928</u> |
| Total | 602,773 |
| 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. | 36,027 |
| In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due. | (205,494) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds (Term & Serial) | (10,720,000) |
| Capital Appreciation Bonds | (68,164) |
| Accretion on Capital Appreciation Bonds | (25,570) |
| Premium on Bonds Payable | (149,958) |
| Compensated Absences | <u>(614,240)</u> |
| Total | <u>(11,577,932)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$17,607,576</u></u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

| | General | Bond Retirement | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|----------------------------------------------------------------|--------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property Taxes | \$2,531,817 | \$598,903 | \$0 | \$164,721 | \$3,295,441 |
| Tuition and Fees | 757,344 | 0 | 0 | 0 | 757,344 |
| Interest | 13,722 | 1,343 | 28,901 | 163 | 44,129 |
| Charges for Services | 1,478 | 0 | 0 | 129,056 | 130,534 |
| Extracurricular Activities | 36,268 | 0 | 0 | 123,826 | 160,094 |
| Rentals | 792 | 0 | 0 | 0 | 792 |
| Contributions and Donations | 13,775 | 0 | 0 | 5,471 | 19,246 |
| Intergovernmental | 2,842,739 | 97,285 | 2,676,375 | 808,151 | 6,424,550 |
| Miscellaneous | 30,374 | 0 | 16,203 | 4,451 | 51,028 |
| Total Revenues | 6,228,309 | 697,531 | 2,721,479 | 1,235,839 | 10,883,158 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 2,746,081 | 0 | 0 | 390,564 | 3,136,645 |
| Special | 618,892 | 0 | 0 | 256,423 | 875,315 |
| Vocational | 117,094 | 0 | 0 | 0 | 117,094 |
| Adult/Continuing | 2,889 | 0 | 0 | 8,500 | 11,389 |
| Other | 0 | 0 | 0 | 2,508 | 2,508 |
| Support Services: | | | | | |
| Pupils | 357,007 | 0 | 0 | 5,000 | 362,007 |
| Instructional Staff | 291,970 | 0 | 0 | 16,897 | 308,867 |
| Board of Education | 23,266 | 0 | 0 | 0 | 23,266 |
| Administration | 675,134 | 17 | 0 | 19,946 | 695,097 |
| Fiscal | 289,234 | 11,988 | 0 | 3,768 | 304,990 |
| Business | 7,594 | 0 | 0 | 17,460 | 25,054 |
| Operation and Maintenance of Plant | 460,144 | 0 | 0 | 1,193 | 461,337 |
| Pupil Transportation | 414,131 | 0 | 0 | 4,662 | 418,793 |
| Central | 18,204 | 0 | 0 | 0 | 18,204 |
| Operation of Non-Instructional Services | 0 | 0 | 0 | 1,641 | 1,641 |
| Operation of Food Services | 0 | 0 | 0 | 237,881 | 237,881 |
| Extracurricular Activities | 193,242 | 0 | 0 | 213,453 | 406,695 |
| Capital Outlay | 0 | 0 | 12,548,602 | 262,347 | 12,810,949 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 190,000 | 0 | 0 | 190,000 |
| Interest and Fiscal Charges | 0 | 453,100 | 0 | 0 | 453,100 |
| Total Expenditures | 6,214,882 | 655,105 | 12,548,602 | 1,442,243 | 20,860,832 |
| Excess of Revenues Over (Under) Expenditures | 13,427 | 42,426 | (9,827,123) | (206,404) | (9,977,674) |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 0 | 0 | 19,676 | 48,076 | 67,752 |
| Transfers Out | (48,076) | 0 | 0 | (19,676) | (67,752) |
| Total Other Financing Sources (Uses) | (48,076) | 0 | 19,676 | 28,400 | 0 |
| Net Change in Fund Balances | (34,649) | 42,426 | (9,807,447) | (178,004) | (9,977,674) |
| Fund Balances Beginning of Year - Restated (See Note 3) | 1,212,117 | 454,423 | 14,708,438 | 756,082 | 17,131,060 |
| Fund Balances End of Year | \$1,177,468 | \$496,849 | \$4,900,991 | \$578,078 | \$7,153,386 |

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds (\$9,977,674)

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

Governmental funds report capital outlays as expenditures.

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

| | | |
|---------------------------|------------|------------|
| Capital Outlay | 12,943,269 | |
| Current Year Depreciation | (307,088) | |
| | | |
| Total | | 12,636,181 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|--------------------------|-------------|-------------|
| Property Taxes | 49,945 | |
| Intergovernmental Grants | 1,840 | |
| OSFC Grants | (2,169,770) | |
| | | |
| Total | | (2,117,985) |

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

190,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|-----------------------------------------|----------|---------|
| Accrued Interest on Bonds | 2,131 | |
| Accretion on Capital Appreciation Bonds | (15,622) | |
| Amortization of Bond Premium | 5,881 | |
| | | |
| Total | | (7,610) |

Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

| | | |
|----------------------------|----------|----------|
| Compensated Absences | (46,582) | |
| Early Retirement Incentive | 34,212 | |
| | | |
| Total | | (12,370) |

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.

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Change in Net Assets of Governmental Activities

\$710,630

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

*Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------------------------|--------------------|--------------------|--------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$2,501,904 | \$2,531,817 | \$2,531,817 | \$0 |
| Tuition and Fees | 720,709 | 756,423 | 756,423 | 0 |
| Interest | 13,970 | 14,662 | 14,662 | 0 |
| Extracurricular Activities | 2,500 | 1,632 | 1,632 | 0 |
| Rentals | 396 | 416 | 416 | 0 |
| Contributions and Donations | 12,815 | 13,450 | 13,450 | 0 |
| Intergovernmental | 2,855,660 | 2,844,602 | 2,844,602 | 0 |
| Miscellaneous | 2,335 | 7,662 | 7,662 | 0 |
| <i>Total Revenues</i> | <u>6,110,289</u> | <u>6,170,664</u> | <u>6,170,664</u> | <u>0</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,851,220 | 2,738,814 | 2,738,814 | 0 |
| Special | 641,500 | 616,187 | 616,187 | 0 |
| Vocational | 123,685 | 118,886 | 118,886 | 0 |
| Support Services: | | | | |
| Pupils | 371,603 | 356,957 | 356,957 | 0 |
| Instructional Staff | 346,678 | 333,041 | 333,041 | 0 |
| Board of Education | 24,222 | 23,266 | 23,266 | 0 |
| Administration | 660,874 | 634,798 | 634,798 | 0 |
| Fiscal | 289,603 | 278,176 | 278,176 | 0 |
| Operation and Maintenance of Plant | 475,584 | 456,895 | 456,895 | 0 |
| Pupil Transportation | 437,927 | 420,648 | 420,648 | 0 |
| Central | 18,952 | 18,204 | 18,204 | 0 |
| Extracurricular Activities | 253,309 | 194,238 | 194,238 | 0 |
| <i>Total Expenditures</i> | <u>6,495,157</u> | <u>6,190,110</u> | <u>6,190,110</u> | <u>0</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(384,868)</u> | <u>(19,446)</u> | <u>(19,446)</u> | <u>0</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 61,680 | 61,680 | 61,680 | 0 |
| Transfers In | 122,607 | 0 | 0 | 0 |
| Transfers Out | (171,357) | (48,750) | (48,750) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>12,930</u> | <u>12,930</u> | <u>12,930</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | <u>(371,938)</u> | <u>(6,516)</u> | <u>(6,516)</u> | <u>0</u> |
| <i>Fund Balance Beginning of Year</i> | <u>1,775,467</u> | <u>1,775,467</u> | <u>1,775,467</u> | <u>0</u> |
| Prior Year Encumbrances Appropriated | 7,914 | 7,914 | 7,914 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$1,411,443</u> | <u>\$1,776,865</u> | <u>\$1,776,865</u> | <u>\$0</u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District

Mahoning County, Ohio

Statement of Fund Net Assets

Proprietary Fund

June 30, 2011

| | <u>Internal Service</u> |
|--------------------------------------------|-------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$36,027 |
| Liabilities | |
| | <u>0</u> |
| Net Assets | |
| Unrestricted | <u><u>\$36,027</u></u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District

Mahoning County, Ohio

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2011*

| | <u>Internal Service</u> |
|-------------------------------------|-------------------------|
| Operating Revenues | |
| Charges for Services | \$1,120 |
| Operating Expenses | |
| Purchased Services | <u>1,032</u> |
| <i>Change in Net Assets</i> | 88 |
| <i>Net Assets Beginning of Year</i> | <u>35,939</u> |
| <i>Net Assets End of Year</i> | <u><u>\$36,027</u></u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District

Mahoning County, Ohio

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2011

| | <u>Internal Service</u> |
|------------------------------------------------------------------------------------------------|-------------------------|
| <i>Increase in Cash and Cash Equivalents</i> | |
| Cash Flows from Operating Activities | |
| Cash Received from Interfund Services Provided | \$1,120 |
| Cash Payments for Goods and Services | <u>(1,032)</u> |
| <i>Net Increase in Cash and Cash Equivalents</i> | 88 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>35,939</u> |
| <i>Cash and Cash Equivalents End of Year</i> | <u><u>\$36,027</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$88 |
| Adjustments | <u>0</u> |
| <i>Net Cash Provided by Operating Activities</i> | <u><u>\$88</u></u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District

Mahoning County, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

| | <u>Agency</u> |
|--------------------------------------------|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$14,042</u> |
| Liabilities | |
| Due to Students | \$12,583 |
| Undistributed Monies | 1,459 |
| <i>Total Liabilities</i> | <u>\$14,042</u> |

See accompanying notes to the basic financial statements

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 59 certified employees and 4 administrators who provide services to approximately 740 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. Based upon the application of this criterion, the School District has one component unit.

Component Unit

Western Reserve Kindergarten Learning Academy ("Academy") The Academy is a legally separate, conversion community school, served by a three person Board of Directors. The Academy focuses on an innovative approach to meet the needs of young students, who in many instances have little or no exposure to formal education, by utilizing an all day, every day approach to kindergarten that allows for rapid accelerated learning depending on the student's assessed needs.

The three person Board of directors, appointed by the District, consists of one Ellsworth Township Trustee, a School Improvement Consultant from the State Support Team, Region 5 and a licensed social worker who is also a member of the community. The District sponsored the Academy during fiscal year 2011 under Ohio Revised Code Section 3314. Based on the significant services provide by the District to the Academy, the Academy's purpose of service to the students within the District, and the relationship between the Governing Board of the District and the Board of Directors of the Academy, the Academy is a component unit of the District. For more information see note 24 to the basic financial statements.

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The School District participates in two jointly governed organizations and three public entity risk pools. These organizations are the Mahoning County Career and Technical Center, Area Cooperative Computerized Educational Service System Council of Governments, Mahoning County Schools Employee Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Ohio School Plan. These organizations are presented in Notes 11 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.

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

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

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

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

B. Fund Accounting

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

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

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

Bond Retirement Fund The bond retirement fund accounts for property tax revenues that are restricted for the payment of principal and interest and fiscal charges on general obligation debt.

Classroom Facilities Fund - This fund was established pursuant to Sections 3318.080 and 3318.15, Ohio Revised Code, and accounts for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the construction and equipping of classroom facilities.

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

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

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

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

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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.

Western Reserve Local School District

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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, 2011, but which were levied to finance fiscal year 2012 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.

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

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 2011, the School District's investments were limited to repurchase agreements, mutual funds, Federal Home Loan Bank Bonds and Federal National Mortgage Association Bonds.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 2011 amounted to \$13,722, none of which was assigned from other School District funds.

G. 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.

H. 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.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2011, the School District's capitalization threshold was five thousand 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 and construction in progress, 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 |
|-----------------------------------|-----------------|
| Land Improvements | 10 years |
| Buildings and Improvements | 20 - 100 years |
| Furniture, Fixtures and Equipment | 5 - 20 years |
| Vehicles | 5 - 20 years |
| Textbooks | 5 years |

Western Reserve Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

J. 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.

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.

K. 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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$6,411,388, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for the operation of instructional services, support services and extracurricular activities.

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

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education, which may be expressed by a motion but need not be passed by formal action, such as a Board Resolution.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Bond Premium

On the government wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are receipted in the year the bonds are issued.

Western Reserve Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 Balances

On the fund financial statements, receivables and payables resulting short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental columns of the statement of net assets. The School District did not have any interfund receivable/payable balances for the fiscal year ending June 30, 2011.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

S. 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 Prior Year Fund Balance

A. Change in Accounting Principle

For fiscal year 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the District's financial statements.

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

B. Restatement of Prior Year Fund Balance

| | General | Bond Retirement | Classroom Facilities | Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------------------|--------------------|------------------|----------------------|-----------------------------|--------------------------|
| Fund Balance at June 30, 2010 | \$1,165,147 | \$454,423 | \$14,708,438 | \$803,052 | \$17,131,060 |
| Change in Fund Structure (GASB 54) | 46,970 | 0 | 0 | (46,970) | 0 |
| Adjusted Fund Balance at June 30, 2010 | <u>\$1,212,117</u> | <u>\$454,423</u> | <u>\$14,708,438</u> | <u>\$756,082</u> | <u>\$17,131,060</u> |

Note 4 – Fund Deficits

Fund balances at June 30, 2011 included the following individual fund deficits:

| Nonmajor Governmental Funds: | Deficit |
|------------------------------------------|----------|
| Food Service | \$15,742 |
| Emergency Management Information Systems | 2,272 |
| Education Jobs Fund | 1,860 |
| IDEA Part B Grant | 1,572 |
| Education Stabilization Fund | 2,400 |
| Title I | 1,085 |
| Improving Teacher Quality | 243 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

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) 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).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

5. *Certain funds have legally separate adopted budgets (budget) but are included in the General Fund (GAAP).

*As part of Governmental Accounting Standards Board No. 54 "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General fund on a GAAP basis. These include the uniform school supplies, rotary special services, public school support and special enterprise special revenue funds.

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 | (\$34,649) |
| Net Adjustment for Revenue Accruals | (70,222) |
| Advances In | 61,680 |
| Net Adjustment for Expenditure Accruals | 28,305 |
| Net Adjustment for Funds Budgeted as Special Revenue | 12,577 |
| Adjustment for Encumbrances | <u>(4,207)</u> |
| Budget Basis | <u><u>(\$6,516)</u></u> |

Note 6 - Deposits and Investments

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

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

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

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

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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

At June 30, 2011, the carrying value amount of all the District's deposits was \$1,432,827. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", as of June 30, 2011, \$275,500 of the District's bank balance of \$1,639,918 was exposed to custodial risk as described below, while \$1,364,418 was covered by the Federal Deposit Insurance Corporation (FDIC).

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

Investments

As of June 30, 2011, the School District had the following investments. All investments are in an internal investment pool.

| | Fair Value | Maturity |
|-----------------------------------------------------|-------------|------------------|
| Repurchase Agreements | \$2,894,494 | 6 Months or Less |
| Mutual Funds | 1,310,896 | 6 Months or Less |
| Federal National Mortgage Association Bonds & Notes | 2,024,058 | 6 Months or Less |
| Federal Home Loan Bank Bonds & Notes | 1,709,787 | 6 Months or Less |
| Total Portfolio | \$7,939,235 | |

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. State statute limits investments in repurchase agreements to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk. The underlying securities of the Repurchase Agreements, Mutual Funds, Federal Home Loan Bank Bonds and Federal National Mortgage Association Bonds all carry either a credit rating of AAA or Aaa by Standard and Poors and Moody's. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2011:

| Investment | Percent of Total |
|---------------------------------------|------------------|
| Repurchase Agreements | 36.46% |
| Mutual Funds | 16.51% |
| Federal Home Loan Bank | 21.54% |
| Federal National Mortgage Association | 25.49% |
| Total | 100.00% |

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2011:

| <u>Cash and Investments per Note Disclosure</u> | | <u>Cash and Investments per Statement of Net Assets</u> | |
|-------------------------------------------------|-------------|---------------------------------------------------------|-------------|
| Carrying amount of deposits | \$1,432,827 | Governmental Activities | \$9,358,020 |
| Investments | 7,939,235 | Agency Funds | 14,042 |
| Total | \$9,372,062 | Total | \$9,372,062 |

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 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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.

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Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 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 year 2011 (other than public utility property) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. 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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 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.

Due to the timing of the tax bills sent by the County, there is no money available as an advance to the School District at June 30, 2011 and June 30, 2010.

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 2011 taxes were collected are:

| | 2010 Second Half Collections | | 2011 First Half Collections | |
|---------------------------------------------------|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$87,975,190 | 95.39 % | \$88,309,060 | 95.36 % |
| Public Utility Personal | 4,128,360 | 4.48 | 4,301,090 | 4.64 |
| Tangible Personal Property | 123,180 | 0.13 | 0 | 0.00 |
| Total | <u>\$92,226,730</u> | <u>100.00 %</u> | <u>\$92,610,150</u> | <u>100.00 %</u> |
| Tax rate per \$1,000 of assessed valuation | \$54.40 | | \$54.40 | |

Western Reserve Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 8 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | Bond Retirement | Classroom Facilities | Nonmajor Governmental | Total |
|------------------------------------|--------------------|------------------|----------------------|-----------------------|--------------------|
| <i>Nonspendable:</i> | | | | | |
| Inventory | \$78,173 | \$0 | \$0 | \$1,152 | \$79,325 |
| <i>Restricted for:</i> | | | | | |
| Classroom Maintenance | 0 | 0 | 0 | 121,388 | 121,388 |
| Athletics & Music | 0 | 0 | 0 | 15,287 | 15,287 |
| Debt Service Payments | 0 | 496,849 | 0 | 0 | 496,849 |
| Capital Improvements | 0 | 0 | 4,900,991 | 415,128 | 5,316,119 |
| Textbooks Purchases | 162,894 | 0 | 0 | 0 | 162,894 |
| Bus Purchases | 19,893 | 0 | 0 | 0 | 19,893 |
| <i>Total Restricted</i> | <u>182,787</u> | <u>496,849</u> | <u>4,900,991</u> | <u>551,803</u> | <u>6,132,430</u> |
| <i>Committed to:</i> | | | | | |
| College Scholarships | 0 | 0 | 0 | 51,449 | 51,449 |
| Budget Stabilization | 67,313 | 0 | 0 | 0 | 67,313 |
| <i>Total Committed</i> | <u>67,313</u> | <u>0</u> | <u>0</u> | <u>51,449</u> | <u>118,762</u> |
| <i>Assigned to:</i> | | | | | |
| Other Purposes | 34,317 | 0 | 0 | 0 | 34,317 |
| Encumbrances | 1,289 | 0 | 0 | 0 | 1,289 |
| <i>Total Assigned</i> | <u>35,606</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>35,606</u> |
| <i>Unassigned (Deficit)</i> | <u>813,589</u> | <u>0</u> | <u>0</u> | <u>(26,326)</u> | <u>787,263</u> |
| <i>Total Fund Balances</i> | <u>\$1,177,468</u> | <u>\$496,849</u> | <u>\$4,900,991</u> | <u>\$578,078</u> | <u>\$7,153,386</u> |

Note 9 - Receivables

Receivables at June 30, 2011 consisted of property taxes, accounts (billings for user charged services and student fees), intergovernmental grants, and interest. All receivables except for delinquent property taxes are expected to be collected within one year.

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

| | |
|--------------------------|---------------------------|
| Property Taxes | \$3,575,461 |
| Intergovernmental | 352,945 |
| Accounts | 35,138 |
| Accrued Interest | 11,279 |
| Total Receivables | <u><u>\$3,974,823</u></u> |

The School District entered into an agreement with the Ohio Schools Facilities Commission to construct new school buildings. The State share receivable on the project as of June 30, 2011 is \$336,928.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

| | Balance 6/30/10 | Additions | Reductions | Balance 6/30/11 |
|----------------------------------------------------|--------------------|---------------------|------------|---------------------|
| Governmental Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$28,935 | \$0 | \$0 | \$28,935 |
| Construction in progress | 6,285,654 | 12,920,698 | 0 | 19,206,352 |
| Total capital assets not being depreciated | 6,314,589 | 12,920,698 | 0 | 19,235,287 |
| <i>Capital assets being depreciated:</i> | | | | |
| Land improvements | 34,206 | 0 | 0 | 34,206 |
| Buildings and improvements | 5,800,969 | 0 | 0 | 5,800,969 |
| Furniture, fixtures and equipment | 1,241,980 | 17,076 | 0 | 1,259,056 |
| Vehicles | 708,968 | 0 | 0 | 708,968 |
| Textbooks | 501,584 | 5,495 | 0 | 507,079 |
| Total capital assets being depreciated | 8,287,707 | 22,571 | 0 | 8,310,278 |
| <i>Accumulated depreciation:</i> | | | | |
| Land improvements | (5,385) | (2,860) | 0 | (8,245) |
| Buildings and improvements | (4,124,334) | (162,536) | 0 | (4,286,870) |
| Furniture, fixtures and equipment | (784,215) | (23,777) | 0 | (807,992) |
| Vehicles | (348,688) | (50,856) | 0 | (399,544) |
| Textbooks | (377,039) | (67,059) | 0 | (444,098) |
| Total accumulated depreciation | (5,639,661) | (307,088) * | 0 | (5,946,749) |
| Capital assets being depreciated, net | 2,648,046 | (284,517) | 0 | 2,363,529 |
| Governmental activities capital assets, net | \$8,962,635 | \$12,636,181 | \$0 | \$21,598,816 |

* Depreciation expense was charged to governmental activities as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$52,049 |
| Special | 2,416 |
| Vocational | 429 |
| Support Services: | |
| Pupil | 3,783 |
| Instructional Staff | 72,301 |
| Administration | 2,548 |
| Fiscal | 1,793 |
| Business | 1,681 |
| Operation and Maintenance of Plant | 63,158 |
| Pupil Transportation | 58,979 |
| Operation of Food Services | 3,796 |
| Extracurricular Activities | 44,155 |
| Total Depreciation Expense | \$307,088 |

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 11 - Jointly Governed Organizations

A. Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a political subdivision of the State of Ohio operated under the direction of a Board consisting of the five members of the Mahoning County Educational Service Center Governing Board, representing the eleven local school districts, and one representative from each of the two city school districts. The students of each participating school district may attend classes offered at the vocational facility. During fiscal year 2011, no monies were received from the School District. To obtain financial information write to the Treasurer at the Mahoning County Career and Technical Center, 7300 North Palmyra Road, Canfield, Ohio 44406.

B. Area Cooperative Computerized Educational Service System Council of Governments

The Area Cooperative Computerized Educational Service System/ACCESS Assembly (ACCESS) is a consortium of twenty-six school districts in Mahoning and Columbiana Counties, two educational service centers, twenty non-public schools and two Special Education Regional Resource Centers.

The jointly governed organization was formed for the purpose of utilizing computers and other electronic equipment for administrative and instructional functions among member districts. These include educational management information system services, fiscal services, library services, network services and student services.

ACCESS is governed by an Assembly, which makes all decisions regarding programs, fees, budget and policy. The Assembly is composed of the Superintendent of each of the member districts. Assembly members may designate proxy attendees at meetings for voting purposes. The Assembly meets twice per year, once in November and once in May. Budgets and fees are discussed at the fall meeting, while the Board of Directors are chosen at the spring meeting.

While the Assembly has overall governance for ACCESS, the Board of Directors is selected to make the majority of the day to day operational decisions. Everything from equipment purchases, contracts, personnel action and financial oversight is handled by the Board. The Board is made up of two superintendents each from both Mahoning and Columbiana counties, and the superintendents from both the Mahoning County and Columbiana County Educational Service Centers. The ACCESS Executive Director and the Treasurer are also part of the Board of Directors, but are non-voting members.

All ACCESS revenues are generated from charges for services and State funding. Each of the members supports the ACCESS Assembly based upon a per pupil charge. The School District paid a monthly fee to ACCESS during fiscal year 2011. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 220, Youngstown, Ohio, 44512.

Note 12 - Risk Management

A. Workers' Compensation

For fiscal year 2011, 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

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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. The School District joined together with other School Districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool to obtain liability coverage. Each individual school district enters into an agreement with the OSP and its premium is based on the types of coverage and limits of coverage, and deductibles that it selects. During fiscal year 2011, the School District contracted with the Ohio School Plan for various types of significant insurance as follows:

| Coverage | Amount | Deductible |
|----------------------------|---------------|------------|
| Building/Contents Property | \$19,129,730 | \$1,000 |
| Flood | 1,000,000 | 25,000 |
| Earthquakes | 1,000,000 | 25,000 |
| Violence - Aggregate | 1,000,000 | 0 |
| Crime | 25,000/10,000 | 1,000 |
| Automobile Liability | 3,000,000 | 1,000 |
| Uninsured Motorists | 1,000,000 | 0 |
| General Liability: | | |
| Per occurrence | 4,000,000 | n/a |
| Total per year | 6,000,000 | n/a |
| Employers' Liability | 4,000,000 | n/a |
| Legal Liability: | | |
| Injury Limit | 4,000,000 | 2,500 |
| Aggregate | 6,000,000 | 0 |
| Fiduciary Liability: | | |
| Claim Limit | 4,000,000 | 2,500 |
| Aggregate | 6,000,000 | 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 various 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.

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For the Fiscal Year Ended June 30, 2011

The School District pays medical/surgical premiums of \$897.84 for family coverage, \$320.67 for single coverage, \$673.37 for employee plus spouse, and \$545.13 for employee plus child/children per employee per month. The School District pays \$80.46 for family dental coverage, \$33.40 for single dental coverage, \$62.78 for employee plus spouse dental coverage, and \$56.10 for employee plus child/children dental coverage. The School District also pays \$250.36 for family prescription drug coverage, \$89.41 for single prescription drug coverage, \$187.78 for employee plus spouse, and \$152.00 for employee plus child/children prescription drug coverage per month.

The School District has elected to provide vision benefits through a self-insurance program. The School District maintains an insurance reserve internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, Medical Mutual, located in Cleveland, Ohio, reviews and pays all claims which are then reimbursed by the School District. The School District pays into the insurance reserve internal service fund \$12.58 for family vision coverage, \$4.20 for single vision coverage, \$8.40 for employee plus spouse vision coverage and \$7.55 for employee plus child/children 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 \$0 reported in the internal service fund at June 30, 2011, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2010 and 2011 were:

| | Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|----------------------|------------------------|-------------------|---------------------------|
| 2010 | \$0 | \$3,411 | \$3,411 | \$0 |
| 2011 | 0 | 1,032 | 1,032 | 0 |

Note 13 – Pension Plans

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the fiscal

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Notes to the Basic Financial Statements
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years ended June 30, 2011, 2010 and 2009 were \$99,163, \$109,248, and \$76,701, respectively; 51.9 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the State or any political subdivision thereof.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

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Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by three percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2011, were 10 percent of covered payroll for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009, were \$422,698, \$423,444, and \$404,651, respectively; 84.2 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$18,289 made by the District and \$13,063 made by the plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* will be available sometime after December 31, 2010.

Additional information or copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, or by calling toll free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 – Postemployment Benefits

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan for School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76 percent. The District's contribution for the year ended June 30, 2011, 2010 and 2009 were \$6,381, \$6,497, and \$6,328, respectively, which equaled the required contributions each year.

Health Care Plan – ORC Sections 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the fiscal year ended June 30, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is allocated for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the years ended June 30, 2011, 2010 and 2009 were \$24,916, \$20,808 and \$46,983, respectively; 51.9 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System of Ohio

Plan Description – The District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined Pension Plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio website at www.strsoh.org.

Funding Policy – Ohio law authorizes STRS Ohio to offer Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contribution for health care for the fiscal year ended June 30, 2011, 2010 and 2009 were \$32,515, \$32,573, and \$31,127, respectively; 84.2 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 15 - 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 Assurant Employee Benefits.

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 based upon their length of service, up to a maximum of 30 days, plus sixteen 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.

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C. Retirement Incentive

The School District Board of Education offered employees participation in a Retirement Incentive program beginning September 1, 2004 through October 31, 2007 for certified employees and beginning July 1, 2005 through June 30, 2008 for classified employees. Participation was open to teachers who were eligible to retire by June 1st of the year in which the request was made under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. Participation was open to classified employees who were eligible to retire under the State Employees Retirement System (SERS) within 90 days of notification to the Board Treasurer. The value of the incentive for both certified and classified employees was equal to the difference between the employee's salary and the salary of the new employee in the same classification with zero years. The employee would receive 100 percent of the difference of he or she retired within one year of eligibility, 75 percent within 2 years of eligibility, and 50 percent within 3 years of eligibility. The final amounts of this incentive were paid in full during fiscal year 2011.

Note 16 - Interfund Transfers

The general fund made transfers to the food service, district managed student activity, the educational management information systems and the race to the top grant special revenue funds in the amount of \$10,640, \$27,269, \$8,454 and \$1,713, respectively. The building capital projects fund also transferred \$19,676 to the classroom facilities major capital projects fund. Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization. Transfers are also used to close out the funds that are no longer required.

Note 17 - Long-term Obligations

Changes in the School District's long-term obligations during fiscal year 2011 were as follows:

| | Principal Outstanding 6/30/10 | Additions | Deductions | Principal Outstanding 6/30/11 | Amounts due in One Year |
|--------------------------------------------|-------------------------------------|-----------------|--------------------|-------------------------------------|-------------------------------|
| General Obligation Bonds: | | | | | |
| 2009 Ohio School Facilities Bonds | | | | | |
| Current Interest Serial Bonds 2.5% - 4.75% | \$6,015,000 | \$0 | (\$190,000) | \$5,825,000 | \$200,000 |
| Current Interest Term Bonds 4.75% | 4,895,000 | 0 | 0 | 4,895,000 | 0 |
| Capital Appreciation Bonds 20.0% | 68,164 | 0 | 0 | 68,164 | 0 |
| Accretion on C.A.B.'s | 9,948 | 15,622 | 0 | 25,570 | 0 |
| Unamortized Premium on Bonds | 155,839 | 0 | (5,881) | 149,958 | 0 |
| Total General Obligation Bonds | 11,143,951 | 15,622 | (195,881) | 10,963,692 | 200,000 |
| Other Long-Term Obligations: | | | | | |
| Compensated Absences | 567,658 | 70,728 | (24,146) | 614,240 | 14,108 |
| Early Retirement Incentive | 34,212 | 0 | (34,212) | 0 | 0 |
| Total Other Long-Term Obligations | 601,870 | 70,728 | (58,358) | 614,240 | 14,108 |
| Total Long-Term Obligations | \$11,745,821 | \$86,350 | (\$254,239) | \$11,577,932 | \$214,108 |

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On September 16, 2009, the District issued \$11,243,164 in classroom facilities bonds for the construction of new schools. The bonds were issued for a twenty-seven year period, will mature on January 1, 2037 and will be paid using tax revenue from the debt service fund. The bond issue included \$6,280,000 in serial bonds with rates ranging from 2.5 to 4.375 percent, \$4,895,000 in term bonds with a rate of 4.75 percent and was issued at a premium of \$158,779.

The 2009 classroom facilities general obligation bonds include capital appreciation bonds of \$68,164 with a rate of 20 percent. This year the addition on these bonds aggregating \$15,622 represents the accretion of discounted interest. The final maturity of these bonds on January 15, 2019 is \$390,000.

Compensated absences will be paid from the general fund and the food service special revenue fund and the early retirement incentive payable will be paid from the general fund.

The School District's overall legal debt margin was \$1,077,144 with an unvoted debt margin of \$92,610 at June 30, 2011. Principal requirements to retire general obligation debt outstanding at June 30, 2011, are as follows:

| Fiscal Year Ending June 30, | General Obligation Bonds | | | | | |
|-----------------------------------|--------------------------|--------------------|---------------------|----------------------------|------------------|------------------|
| | Current Interest Bonds | | | Capital Appreciation Bonds | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2012 | \$200,000 | \$448,350 | \$648,350 | \$0 | \$0 | \$0 |
| 2013 | 220,000 | 443,350 | 663,350 | 0 | 0 | 0 |
| 2014 | 225,000 | 437,850 | 662,850 | 0 | 0 | 0 |
| 2015 | 255,000 | 432,225 | 687,225 | 0 | 0 | 0 |
| 2016 | 280,000 | 425,212 | 705,212 | 0 | 0 | 0 |
| 2017 - 2021 | 1,190,000 | 2,014,235 | 3,204,235 | 68,164 | 321,836 | 390,000 |
| 2022 - 2026 | 2,030,000 | 1,721,218 | 3,751,218 | 0 | 0 | 0 |
| 2027 - 2031 | 2,480,000 | 1,262,780 | 3,742,780 | 0 | 0 | 0 |
| 2032 - 2036 | 3,125,000 | 628,662 | 3,753,662 | 0 | 0 | 0 |
| 2037 | 715,000 | 33,962 | 748,962 | 0 | 0 | 0 |
| Total | \$10,720,000 | \$7,847,844 | \$18,567,844 | \$68,164 | \$321,836 | \$390,000 |

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 various 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
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

B. Insurance Purchasing Pools

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

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

Note 19 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2011, 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 as of June 30, 2010 | \$173,279 | \$0 | \$67,313 |
| Current Year Set-Aside Requirement | 104,827 | 104,827 | 0 |
| Qualifying Disbursements | (115,212) | (158,174) | 0 |
| Current Year Offsets | 0 | (229,459) | 0 |
| Total | \$162,894 | (\$282,806) | \$67,313 |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>\$162,894</u> | <u>\$0</u> | <u>\$67,313</u> |
| Cash balance as of June 30, 2011 | <u>\$162,894</u> | <u>\$0</u> | <u>\$67,313</u> |

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Although 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 amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of restricted assets as of June 30, 2011 is as follows:

| | |
|-------------------------------------------|-------------------------|
| Amount Set-Aside for Textbooks | \$162,894 |
| Amount Set-Aside for Budget Stabilization | 67,313 |
| Amount Set-Aside for Bus Purchases | <u>19,893</u> |
| Total | <u><u>\$250,100</u></u> |

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, 2011.

B. Litigation

The School District is not party to legal proceedings as of June 30, 2011.

Note 21 – Operating Lease

The School District entered into a 60 month photocopy machines lease and maintenance agreement with American Business Center, Inc., for \$1,455 a month, commencing on January 1, 2007 and concluding in December of 2011 with the District making payments of \$17,460 in fiscal year 2011.

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 22 – Contractual Commitments

As of June 30, 2011, the District had the following contractual commitments:

| | Contractual Commitments | Expended | Balance 6/30/2011 |
|--------------------------------|----------------------------|--------------------|----------------------|
| Antenucci Inc. | \$1,329,755 | \$1,266,731 | \$63,024 |
| Boak & Sons | 175,081 | 175,081 | 0 |
| Breckenridge Kitchen Equipment | 364,792 | 260,727 | 104,065 |
| DeSalvo Construction Company | 2,677,908 | 2,319,263 | 358,645 |
| Ellyson Plumbing & Heating | 443,585 | 366,116 | 77,469 |
| Roof T.E.C., Inc. | 20,257 | 8,920 | 11,337 |
| Moroco Electric, Inc. | 159,000 | 103,390 | 55,610 |
| North Coast Fire Protection | 76,143 | 63,674 | 12,469 |
| Olsavsky Jaminet Architects | 171,756 | 63,094 | 108,662 |
| Southern Cabinetry | 354,700 | 329,549 | 25,151 |
| W.T. Leone's Tri-Area Electric | 1,183,799 | 1,095,095 | 88,704 |
| Hammond Construction | 20,747 | 20,121 | 626 |
| S.E. Blueprint Inc. | 13,457 | 3,130 | 10,327 |
| Brewer-Garrett Company | 35,956 | 4,393 | 31,563 |
| Lawhon & Associates, Inc. | 11,833 | 6,508 | 5,325 |
| Reliable Construction Heaters | 50,000 | 25,789 | 24,211 |
| Totals | \$7,088,769 | \$6,111,581 | \$977,188 |

Note 23 – New Accounting Standards

In November of 2010, the GASB issued Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements.” The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, a type of public-private or public-public partnership. Statement No. 60 will not be effective for the District until fiscal year 2013 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

In November of 2010, the GASB also issued Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity by modifying the requirements for including component units and also amending the criteria for reporting component units. Statement No. 61 will not be effective for the District until fiscal year 2013 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

Note 24 – Western Reserve Kindergarten Learning Academy Community School

The Western Reserve Kindergarten Learning Academy (the ‘Academy’) has been determined to be a discretely presented component unit. The District’s management has determined that it is significant; therefore it has been included as part of the District’s basic financial statements. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Western Reserve Local School District, 13850 Akron-Canfield Road, Berlin Center, Ohio 44401.

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

A. Significant Accounting Policies

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

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

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

Measurement Focus and Basis of Accounting - Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires the Academy to submit a financial plan detailing an estimated Academy budget for each fiscal year of the contract, or five years, whichever is less.

Cash - Cash received by the Academy is maintained in a demand deposit account.

Capital Assets and Depreciation - Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The Academy maintains a capitalization threshold of \$1,000. The Academy does not have any infrastructure. 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 capitalized.

All capital assets are depreciated using the straight-line method. Equipment is depreciated over ten years.

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Intergovernmental Revenues - The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Other grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate enrollment data to the State, upon which State Foundation funding is calculated.

Estimates - The preparation of financial statements in conformity with GAAP 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.

Tax Exemption Status - The Academy is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the Academy qualifying as an integral part of the Western Reserve Local School District.

B. Deposits and Investments

At June 30, 2011, the carrying amount of all Academy deposits was \$3,155. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, all of the Academy's bank balance of \$76,099 was covered by the Federal Deposit Insurance Corporation, meaning none was exposed to custodial risk, as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Western Reserve Local School District
Mahoning County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

| | Balance 6/30/10 | Additions | Reductions | Balance 6/30/11 |
|------------------------------------------|--------------------|-----------|------------|--------------------|
| <i>Capital assets being depreciated:</i> | | | | |
| Furniture, fixtures and equipment | \$55,451 | \$24,993 | \$0 | \$80,444 |
| <i>Less Accumulated depreciation:</i> | | | | |
| Furniture, fixtures and equipment | (9,204) | (8,041) | 0 | (17,245) |
| Capital assets being depreciated, net | \$46,247 | \$16,952 | \$0 | \$63,199 |

D. Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2011, professional liability is provided through the Ohio School Plan, under the Western Reserve Local School District's policy, with a \$4,000,000 annual aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible.

E. Purchased Services

For fiscal year ended June 30, 2011, purchased service expenses were as follows:

| | |
|-------------------------------------|-----------|
| Professional and Technical Services | \$123,485 |
| Classroom Related Fees | 1,804 |
| Other | 333 |
| Total | \$125,622 |

F. Service Agreement

Area Cooperative Computerized Educational Service System (ACCESS) - The Academy entered into a one-year agreement commencing on July 1, 2010 and ending June 30, 2011, with ACCESS for internet access, electronic mail and the Ohio Uniform School Accounting System (USAS). Separate and apart from this agreement, the Academy agrees to obtain at its own expense, the additional computer and electronic equipment necessary for receipt of these services at the Academy's facilities. Through its Sponsor, the Academy paid ACCESS a monthly service fee during fiscal year 2011.

G. Contingency – Grants

The Academy received 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2011.

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WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|-----------------------------------------------------------|----------------------------------|---------------------------|-------------------|----------------------|-------------------|---------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| National School Breakfast Program | | 10.553 | \$ 5,076 | | \$ 5,076 | |
| National School Lunch Program | 048298-LLP4-2011 | 10.555 | 77,538 | \$ 13,965 | 77,538 | \$ 13,037 |
| Total U.S. Department of Agriculture | | | 82,614 | 13,965 | 82,614 | 13,037 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | | | | | | |
| IDEA-B ARRA | | 84.391 | 32,516 | | 32,516 | |
| IDEA-B | 048298-6BSF-2010-P | 84.027 | 77,846 | | 77,846 | |
| IDEA-B | 048298-6BSF-2011-P | 84.027 | 129,454 | | 112,605 | |
| Total IDEA-B | | | 207,300 | | 190,451 | |
| Total Special Education Cluster | | | 239,816 | | 222,967 | |
| Grants to Local Educational Agencies | | | | | | |
| ESEA Title I - ARRA | | 84.389 | 16,833 | | 16,833 | |
| ESEA Title I | 0498298-C1S1-2011 | 84.010 | 82,240 | | 82,240 | |
| Total Grants to Local Educational Agencies | | | 99,073 | | 99,073 | |
| Title II-D Technology Literacy Challenge Fund Grant | 048298-TJS1-2011 | 84.318 | 274 | | 274 | |
| State Fiscal Stability Fund ARRA | | 84.394 | 195,894 | | 195,894 | |
| Education Jobs Fund ARRA | | 84.410 | 163,042 | | 163,042 | |
| Race to the Top | | 84.395 | 6,738 | | | |
| Title II-A Improving Teacher Quality | 048298-TRS1-2011 | 84.367 | 20,409 | | 20,409 | |
| Total Department of Education | | | 725,246 | | 701,659 | |
| Totals | | | \$ 807,860 | \$ 13,965 | \$ 784,273 | \$ 13,037 |

The accompanying notes to this schedule are an integral part of this schedule.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Western Reserve Local School District
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, Mahoning County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 2, 2012, in which we noted the District implemented Government Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 2, 2012.

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

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

Dave Yost
Auditor of State

March 2, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Western Reserve Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Western Reserve Local School's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Western Reserve Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-001.

Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2011-001. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

March 2, 2012

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | Yes |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | Yes |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Special Ed Cluster-84.027, 84.391 SFSF-84.394 Ed Jobs – 84.410 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

None

3. FINDINGS FOR FEDERAL AWARDS

1. Cash Management

| | |
|------------------------------------|-----------------------------------------|
| Finding Number | 2011-001 |
| CFDA Title and Number | State Fiscal Stabilization Fund, 84.394 |
| Federal Award Number / Year | 2011 |
| Federal Agency | Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Non-Compliance Finding, Significant Deficiency

34 CFR 80.21 provides that District methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

State Fiscal Stabilization Fund (SFSF) program funds were advanced to Local Educational Agencies (LEA) through the foundation program as indicated in the ODE PATHway to Student Success (PASS) form, a form in FY 2011 that shows funding information for the components of the Evidence Based Funding Model (EBM). Foundation payments are automatically sent to LEA's on a bi-monthly basis. The PASS form breaks out the individual components of EBM, including the amount representing SFSF. SFSF funds are required to be deposited into USAS Fund 532 as described in Section V of the FACCR. LEA's must have an internal control system in place for ensure advance SFSF payments are spent timely (i.e., within 30 days).

The District did not obligate or spend the SFSF monies, \$163,042, within 30 days of receipt in fiscal year 2011, although the money was received throughout the fiscal year. The money was obligated and spent on a quarterly basis.

Officials' Response:

This funding ended in fiscal year 2011. This will no longer be an issue.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2010-001 | <p>34 CFR 80.21 provides that District methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee.</p> <p>The District did not obligate or spend the SFSF monies until June 30, 2010 although the money was received throughout the fiscal year.</p> | No | Repeated as Finding 2011-001 |

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Western Reserve Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 30, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board 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 "Dave Yost".

Dave Yost
Auditor of State

March 2, 2012

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Dave Yost • Auditor of State

WESTERN RESERVE LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 24, 2012**