



Dave Yost • Auditor of State



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY  
JUNE 30, 2016**

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HURON COUNTY  
JUNE 30, 2016**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Western Reserve Local School District  
Huron County  
3765 State Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

### ***Report on the Financial Statements***

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, Huron County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Opinion***

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, Huron County, Ohio, as of June 30, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension liabilities and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

#### *Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 21, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

The management's discussion and analysis of the Western Reserve Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2016 are as follows:

- Net position of governmental activities decreased \$666,843 which represents a decrease of 116.28% from 2015.
- General revenues accounted for \$10,968,884 in revenue or 80.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,680,697 or 19.64% of total revenues of \$13,649,581.
- The District had \$14,316,424 in expenses related to governmental activities; \$2,680,697 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,968,884 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$12,891,824 in revenues and other financing sources and \$13,042,181 in expenditures. During fiscal year 2016, the general fund's fund balance decreased \$150,357 from a balance of \$1,296,529 to a balance of \$1,146,172.
- The bond retirement fund had \$283,307 in revenues and \$253,397 in expenditures. During fiscal year 2016, the bond retirement fund's fund balance increased \$29,910 from a balance of \$593,360 to a balance of \$623,270.

**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

***Statement of Net Position and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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

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

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

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

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

***Required Supplemental Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net position liability.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	<b>Net Position</b>	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 5,906,374	\$ 5,973,266
Capital assets, net	<u>14,636,031</u>	<u>14,786,802</u>
Total assets	<u>20,542,405</u>	<u>20,760,068</u>
<b><u>Deferred Outflows of Resources</u></b>		
Unamortized deferred charges on debt refunding	70,270	79,640
Pension	<u>1,628,229</u>	<u>990,755</u>
Total deferred outflows of resources	<u>1,698,499</u>	<u>1,070,395</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,342,158	1,296,497
Long-term liabilities:		
Due within one year	310,695	282,710
Due in more than one year:		
Net pension liability	15,478,198	13,705,931
Other amounts	<u>2,787,179</u>	<u>2,368,990</u>
Total liabilities	<u>19,918,230</u>	<u>17,654,128</u>
<b><u>Deferred Inflows of Resources</u></b>		
Property taxes levied for the next fiscal year	2,369,492	2,263,685
Pension	<u>1,193,506</u>	<u>2,486,131</u>
Total deferred inflows of resources	<u>3,562,998</u>	<u>4,749,816</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	12,465,452	12,768,140
Restricted	669,481	700,114
Unrestricted (deficit)	<u>(14,375,257)</u>	<u>(14,041,735)</u>
Total net position (deficit)	<u>\$ (1,240,324)</u>	<u>\$ (573,481)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

During a previous fiscal year, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

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

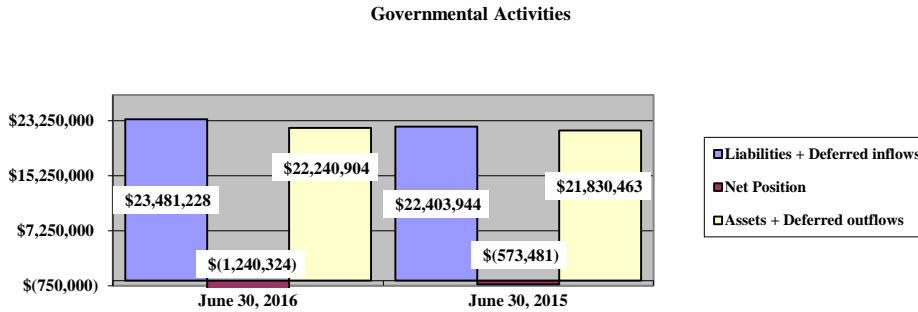
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$1,240,324.

At fiscal year-end, capital assets represented 71.25% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets at June 30, 2016 was \$12,465,452. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$669,481, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$14,375,257.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2016 and June 30, 2015.



The table below shows the change in net position for fiscal years 2016 and 2015.

**Change in Net Position**

	Governmental Activities 2016	Governmental Activities 2015
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,308,177	\$ 1,121,189
Operating grants and contributions	1,372,520	1,337,865
General revenues:		
Property taxes	2,608,336	2,980,141
School district income tax	1,796,218	1,816,702
Grants and entitlements	6,504,575	6,109,106
Investment earnings	24,347	31,389
Miscellaneous	35,408	47,971
<b>Total revenues</b>	<b>\$ 13,649,581</b>	<b>\$ 13,444,363</b>

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

**Change in Net Position (Continued)**

	Governmental Activities	
	2016	2015
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,839,773	\$ 5,385,815
Special	1,847,288	1,814,913
Vocational	230,850	202,234
Other	275,156	200,238
Support services:		
Pupil	223,926	199,124
Instructional staff	867,600	643,751
Board of education	120,991	94,817
Administration	1,095,630	1,045,916
Fiscal	418,391	417,170
Business	18,804	17,353
Operations and maintenance	1,113,049	1,087,838
Pupil transportation	829,946	938,296
Central	129,792	120,380
Operation of non-instructional services		
Other non-instructional services	193,703	209,328
Food service operations	509,727	463,685
Extracurricular activities	485,720	485,400
Interest and fiscal charges	116,078	91,172
Total expenses	14,316,424	13,417,430
Change in net position	(666,843)	26,933
Net position (deficit) at beginning of year	(573,481)	(600,414)
Net position (deficit) at end of year	\$ (1,240,324)	\$ (573,481)

**Governmental Activities**

Net position of the District's governmental activities decreased \$666,843. Total governmental expenses of \$14,316,424 were offset by program revenues of \$2,680,697 and general revenues of \$10,968,884. Program revenues supported 18.72% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property and income taxes, and unrestricted grants and entitlements. These revenue sources represent 79.92% of total governmental revenue.

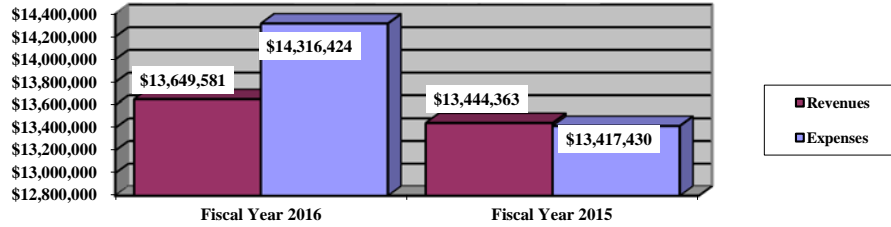
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,193,067 or 57.23% of total governmental expenses for fiscal year 2016. The increase can be attributable to an increase in costs related to increased salaries and benefits paid to employees.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2016 and 2015.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,839,773	\$ 4,880,089	\$ 5,385,815	\$ 4,594,384
Special	1,847,288	1,398,097	1,814,913	897,082
Vocational	230,850	(284,768)	202,234	146,399
Other	275,156	275,156	200,238	200,238
Support services:				
Pupil	223,926	217,526	199,124	192,710
Instructional staff	867,600	867,600	643,751	643,751
Board of education	120,991	120,991	94,817	94,817
Administration	1,095,630	1,043,349	1,045,916	994,820
Fiscal	418,391	417,922	417,170	417,170
Business	18,804	(1,270)	17,353	391
Operations and maintenance	1,113,049	1,070,491	1,087,838	1,074,086
Pupil transportation	829,946	791,115	938,296	912,820
Central	129,792	129,792	120,380	120,380
Operation of non-instructional services				
Other non-instructional services	193,703	193,703	209,328	209,328
Food service operations	509,727	86,495	463,685	29,796
Extracurricular activities	485,720	313,361	485,400	339,032
Interest and fiscal charges	116,078	116,078	91,172	91,172
<b>Total expenses</b>	<b>\$ 14,316,424</b>	<b>\$ 11,635,727</b>	<b>\$ 13,417,430</b>	<b>\$ 10,958,376</b>

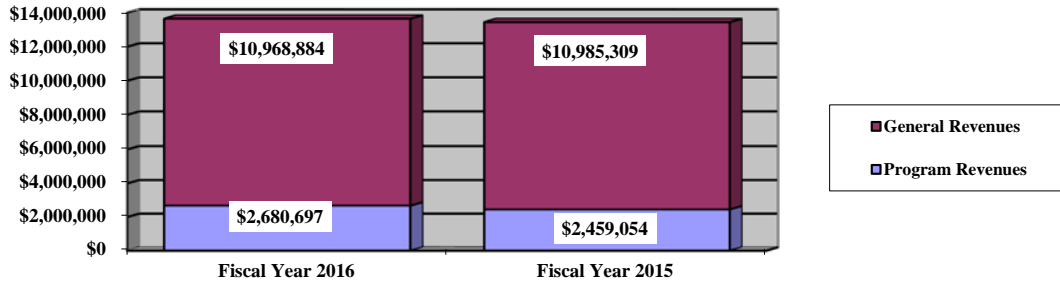
The dependence upon tax and other general revenues for governmental activities is apparent; 76.51% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.28%. The District's taxpayers along with the State foundation revenues, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,927,235 which is \$162,344 lower than last year's balance of \$2,089,579. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	<u>Change</u>
General	\$ 1,146,172	\$ 1,296,529	\$ (150,357)
Bond retirement	623,270	593,360	29,910
Other governmental	<u>157,793</u>	<u>199,690</u>	<u>(41,897)</u>
Total	<u>\$ 1,927,235</u>	<u>\$ 2,089,579</u>	<u>\$ (162,344)</u>



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

***General Fund***

The District's general fund balance decreased \$150,357.

The following table shows the changes in revenues and expenditures in the general fund from fiscal year 2016 and 2015.

	2016 <u>Amount</u>	2015 <u>Amount</u>	<u>Change</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 4,133,849	\$ 4,482,506	\$ (348,657)	(7.78) %
Tuition	911,595	738,142	173,453	23.50 %
Earnings on investments	25,114	28,496	(3,382)	(11.87) %
Intergovernmental	7,007,558	6,526,137	481,421	7.38 %
Other revenues	<u>113,875</u>	<u>128,998</u>	<u>(15,123)</u>	(11.72) %
Total	<u>\$ 12,191,991</u>	<u>\$ 11,904,279</u>	<u>\$ 287,712</u>	2.42 %
<b><u>Expenditures</u></b>				
Instruction	\$ 7,317,629	\$ 6,822,640	\$ 494,989	7.26 %
Support services	4,582,721	4,363,460	219,261	5.02 %
Non-instructional services	193,703	209,328	(15,625)	(7.46) %
Extracurricular activities	287,894	307,263	(19,369)	(6.30) %
Facilities acquisition and construction	15,369	-	15,369	100.00 %
Capital outlay	489,089	81,822	407,267	497.75 %
Debt service	<u>155,776</u>	<u>65,978</u>	<u>89,798</u>	136.10 %
Total	<u>\$ 13,042,181</u>	<u>\$ 11,850,491</u>	<u>\$ 1,191,690</u>	10.06 %

Overall revenues increased \$287,712 or 2.42%. The largest increases were in the areas of intergovernmental and tuition. Intergovernmental increased \$433,101 due primarily to an increase in State Foundation funding. The District received larger target assistance and transportation funding than in the previous year. Tuition revenue increased \$173,453 or 23.50% due to an increase in payments received from other districts through the open enrollment program. Taxes decreased \$348,657 or 7.78% due to the fluctuation in amounts that are available for advance from the County Auditors. These amounts are recorded as revenue under Accounting Principles Generally Accepted in the United States of America (GAAP).

Expenditures of the general fund increased \$1,191,690 or 10.06%. The largest increases were in the areas of instruction, support services and capital outlay. Instruction and support services increased due to salaries and benefits increases given to District employees. The increase in capital outlay is the result of the District entering into a lease-purchase agreement for energy upgrades.

***Bond Retirement Fund***

The bond retirement fund had \$283,307 in revenues and \$253,397 in expenditures. During fiscal year 2016, the bond retirement fund's fund balance increased \$29,910 from a balance of \$593,360 to a balance of \$623,270.

***General Fund Budgeting Highlights***

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

For the general fund, original budgeted revenues and other financing sources were \$11,735,033 and they were increased to \$12,375,007 in the final budget. The actual revenues and other financing sources for fiscal year 2016 were \$12,375,162 which represents an increase of \$155 from final budgeted revenues and other financing sources.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

General fund appropriations (appropriated expenditures and other financing uses) were \$12,049,424 for the original appropriations and increased to \$12,954,099 for final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$12,811,012 which is \$143,087 less than the final appropriations.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2016, the District had \$14,636,031 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2016 balances compared to June 30, 2015:

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

	Governmental Activities	
	2016	2015
Land	\$ 292,868	\$ 292,868
Construction in progress	402,762	-
Land improvements	94,586	112,072
Building and improvements	13,098,620	13,602,002
Furniture and equipment	344,059	389,128
Vehicles	403,136	390,732
Total	\$ 14,636,031	\$ 14,786,802

The overall decrease in capital assets of \$150,771 is due to depreciation expense of \$656,167 exceeding capital outlays of \$505,396 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2016, the District had \$2,478,610 in general obligation bonds, lease-purchase agreements and capital leases outstanding. Of this total, \$304,377 is due within one year and \$2,174,233 is due in more than one year. The following table summarizes the debt outstanding.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

**Outstanding Debt, at Year End**

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
General obligation bonds	\$ 1,620,000	\$ 1,810,000
Accreted interest	142,593	98,281
Lease-purchase agreement	551,674	-
Capital lease	<u>164,343</u>	<u>157,655</u>
Total	<u><u>\$ 2,478,610</u></u>	<u><u>\$ 2,065,936</u></u>

See Note 11 to the basic financial statements for additional information.

**Current Financial Related Activities**

The District has continued to maintain the highest standards of service to our students, parents and the school community throughout the economic adversities faced at the local, state, and national levels.

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves and to minimize the levy millage amounts needed periodically from District residents. The District is committed to living within its financial means and will continue to work diligently to plan expenses, prudently operating within its five-year financial plan.

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

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET POSITION  
JUNE 30, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,873,780
Cash with escrow agent . . . . .	250,984
Receivables:	
Property taxes . . . . .	2,905,508
Income taxes. . . . .	760,854
Accrued interest . . . . .	3,278
Intergovernmental . . . . .	68,471
Prepayments . . . . .	37,900
Materials and supplies inventory. . . . .	1,441
Inventory held for resale. . . . .	4,158
Capital assets:	
Nondepreciable capital assets . . . . .	695,630
Depreciable capital assets, net. . . . .	13,940,401
Capital assets, net. . . . .	14,636,031
Total assets. . . . .	20,542,405
 <b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	70,270
Pension - STRS . . . . .	1,285,584
Pension - SERS . . . . .	342,645
Total deferred outflows of resources. . . . .	1,698,499
 <b>Liabilities:</b>	
Accounts payable. . . . .	119,405
Contracts payable. . . . .	40,240
Accrued wages and benefits payable . . . . .	892,529
Intergovernmental payable . . . . .	119,053
Pension and postemployment benefits payable . . . . .	159,277
Accrued interest payable . . . . .	11,654
Long-term liabilities:	
Due within one year. . . . .	310,695
Due in more than one year:	
Net pension liability. . . . .	15,478,198
Other amounts due in more than one year. . . . .	2,787,179
Total liabilities. . . . .	19,918,230
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year . . . . .	2,369,492
Pension - STRS. . . . .	1,121,686
Pension - SERS. . . . .	71,820
Total deferred inflows of resources . . . . .	3,562,998
 <b>Net position:</b>	
Net investment in capital assets . . . . .	12,465,452
Restricted for:	
Capital projects . . . . .	51,308
Classroom facilities maintenance . . . . .	47,483
Debt service. . . . .	488,704
State funded programs. . . . .	2,927
Student activities . . . . .	79,059
Unrestricted (deficit) . . . . .	(14,375,257)
Total net position (deficit). . . . .	\$ (1,240,324)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 5,839,773	\$ 911,595	\$ 48,089	\$ (4,880,089)
Special . . . . .	1,847,288	-	449,191	(1,398,097)
Vocational . . . . .	230,850	-	515,618	284,768
Other . . . . .	275,156	-	-	(275,156)
Support services:				
Pupil . . . . .	223,926	-	6,400	(217,526)
Instructional staff . . . . .	867,600	-	-	(867,600)
Board of education . . . . .	120,991	-	-	(120,991)
Administration . . . . .	1,095,630	52,281	-	(1,043,349)
Fiscal . . . . .	418,391	-	469	(417,922)
Business . . . . .	18,804	20,074	-	1,270
Operations and maintenance . . . . .	1,113,049	6,112	36,446	(1,070,491)
Pupil transportation . . . . .	829,946	-	38,831	(791,115)
Central . . . . .	129,792	-	-	(129,792)
Operation of non-instructional services:				
Other non-instructional services . . . . .	193,703	-	-	(193,703)
Food service operations . . . . .	509,727	147,992	275,240	(86,495)
Extracurricular activities . . . . .	485,720	170,123	2,236	(313,361)
Interest and fiscal charges . . . . .	116,078	-	-	(116,078)
<b>Total governmental activities . . . . .</b>	<b>\$ 14,316,424</b>	<b>\$ 1,308,177</b>	<b>\$ 1,372,520</b>	<b>(11,635,727)</b>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				2,323,095
Debt service . . . . .				242,168
Classroom facilities maintenance . . . . .				43,073
School district income tax . . . . .				1,796,218
Grants and entitlements not restricted to specific programs . . . . .				6,504,575
Investment earnings . . . . .				24,347
Miscellaneous . . . . .				35,408
<b>Total general revenues . . . . .</b>				<b>10,968,884</b>
Change in net position . . . . .				(666,843)
<b>Net position (deficit) at beginning of year . . . . .</b>				<b>(573,481)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (1,240,324)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 1,076,717	\$ 585,602	\$ 211,461	\$ 1,873,780
Cash with escrow agent . . . . .	250,984	-	-	250,984
Receivables:				
Property taxes. . . . .	2,586,991	271,246	47,271	2,905,508
Income taxes . . . . .	760,854	-	-	760,854
Accrued interest . . . . .	3,278	-	-	3,278
Intergovernmental. . . . .	68,471	-	-	68,471
Prepayments. . . . .	37,847	-	53	37,900
Materials and supplies inventory. . . . .	-	-	1,441	1,441
Inventory held for resale. . . . .	-	-	4,158	4,158
Total assets . . . . .	<u>\$ 4,785,142</u>	<u>\$ 856,848</u>	<u>\$ 264,384</u>	<u>\$ 5,906,374</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 107,244	\$ -	\$ 12,161	\$ 119,405
Contracts payable. . . . .	40,240	-	-	40,240
Accrued wages and benefits payable . . . . .	848,973	-	43,556	892,529
Intergovernmental payable . . . . .	118,176	-	877	119,053
Pension and postemployment benefits payable . . . . .	149,955	-	9,322	159,277
Total liabilities. . . . .	<u>1,264,588</u>	<u>-</u>	<u>65,916</u>	<u>1,330,504</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	2,110,113	220,929	38,450	2,369,492
Delinquent property tax revenue not available. . . . .	120,011	12,649	2,225	134,885
Income tax revenue not available . . . . .	129,572	-	-	129,572
Intergovernmental revenue not available. . . . .	12,764	-	-	12,764
Accrued interest not available. . . . .	1,922	-	-	1,922
Total deferred inflows of resources . . . . .	<u>2,374,382</u>	<u>233,578</u>	<u>40,675</u>	<u>2,648,635</u>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory. . . . .	-	-	1,441	1,441
Prepays. . . . .	37,847	-	53	37,900
Restricted:				
Debt service . . . . .	-	623,270	-	623,270
Capital improvements . . . . .	210,744	-	51,008	261,752
Classroom facilities maintenance . . . . .	-	-	45,258	45,258
Other purposes. . . . .	-	-	2,927	2,927
Extracurricular activities. . . . .	-	-	79,059	79,059
Assigned:				
Student instruction . . . . .	17,074	-	-	17,074
Student and staff support. . . . .	31,159	-	-	31,159
Extracurricular activities . . . . .	200	-	-	200
Capital improvements . . . . .	69,226	-	-	69,226
Public school support . . . . .	293,624	-	-	293,624
School supplies . . . . .	2,253	-	-	2,253
Other purposes. . . . .	1,996	-	-	1,996
Unassigned (deficit) . . . . .	482,049	-	(21,953)	460,096
Total fund balances . . . . .	<u>1,146,172</u>	<u>623,270</u>	<u>157,793</u>	<u>1,927,235</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,785,142</u>	<u>\$ 856,848</u>	<u>\$ 264,384</u>	<u>\$ 5,906,374</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016

<b>Total governmental fund balances</b>		\$ 1,927,235
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,636,031
Other long-term assets are not available to pay for current-period expenditures and therefore is unavailable revenue in the funds.		
Delinquent property taxes receivable	\$ 134,885	
Income taxes receivable	129,572	
Accrued interest receivable	1,922	
Intergovernmental receivable	12,764	
Total	279,143	279,143
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.		
Deferred outflows - Pension	1,628,229	
Deferred Inflows - Pension	(1,193,506)	
Net pension liability	(15,478,198)	
Total	(15,043,475)	(15,043,475)
Unamortized premiums on bonds issued are not recognized in the funds.		(115,276)
Unamortized amounts on refundings are not recognized in the funds.		70,270
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,654)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(1,762,593)	
Lease-purchase obligations	(551,674)	
Capital lease obligations	(164,343)	
Compensated absences	(503,988)	
Total	(2,982,598)	(2,982,598)
<b>Net position (deficit) of governmental activities</b>		<b>\$ (1,240,324)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,342,872	\$ 244,661	\$ 43,681	\$ 2,631,214
Income taxes. . . . .	1,790,977	-	-	1,790,977
Tuition. . . . .	911,595	-	-	911,595
Earnings on investments . . . . .	25,114	-	672	25,786
Charges for services . . . . .	-	-	147,992	147,992
Extracurricular. . . . .	52,281	-	170,123	222,404
Classroom materials and fees . . . . .	20,074	-	-	20,074
Rental income . . . . .	6,112	-	-	6,112
Contributions and donations . . . . .	-	-	2,236	2,236
Other local revenues . . . . .	35,408	-	-	35,408
Intergovernmental - intermediate . . . . .	48,320	-	-	48,320
Intergovernmental - state . . . . .	6,914,924	38,646	64,392	7,017,962
Intergovernmental - federal . . . . .	44,314	-	778,205	822,519
Total revenues . . . . .	<u>12,191,991</u>	<u>283,307</u>	<u>1,207,301</u>	<u>13,682,599</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular. . . . .	5,477,744	-	46,781	5,524,525
Special . . . . .	1,361,904	-	465,160	1,827,064
Vocational . . . . .	201,870	-	4,356	206,226
Other . . . . .	276,111	-	-	276,111
Support services:				
Pupil . . . . .	219,343	-	6,400	225,743
Instructional staff . . . . .	868,104	-	-	868,104
Board of education . . . . .	121,104	-	-	121,104
Administration . . . . .	1,080,436	-	-	1,080,436
Fiscal . . . . .	412,508	6,966	1,252	420,726
Business. . . . .	18,018	-	-	18,018
Operations and maintenance . . . . .	968,776	-	97,283	1,066,059
Pupil transportation . . . . .	765,273	-	-	765,273
Central . . . . .	129,159	-	-	129,159
Operation of non-instructional services:				
Other non-instructional services. . . . .	193,703	-	-	193,703
Food service operations. . . . .	-	-	454,932	454,932
Extracurricular activities . . . . .	287,894	-	173,034	460,928
Facilities acquisition and construction. . . . .	15,369	-	-	15,369
Capital outlay . . . . .	489,089	-	-	489,089
Debt service:				
Principal retirement. . . . .	141,471	190,000	-	331,471
Interest and fiscal charges . . . . .	14,305	56,431	-	70,736
Total expenditures . . . . .	<u>13,042,181</u>	<u>253,397</u>	<u>1,249,198</u>	<u>14,544,776</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(850,190)</u>	<u>29,910</u>	<u>(41,897)</u>	<u>(862,177)</u>
<b>Other financing sources:</b>				
Lease-purchase agreement transaction . . . . .	613,506	-	-	613,506
Capital lease transaction . . . . .	86,327	-	-	86,327
Total other financing sources. . . . .	<u>699,833</u>	<u>-</u>	<u>-</u>	<u>699,833</u>
Net change in fund balances . . . . .	(150,357)	29,910	(41,897)	(162,344)
<b>Fund balances at beginning of year. . . . .</b>	<u>1,296,529</u>	<u>593,360</u>	<u>199,690</u>	<u>2,089,579</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 1,146,172</u>	<u>\$ 623,270</u>	<u>\$ 157,793</u>	<u>\$ 1,927,235</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<b>Net change in fund balances - total governmental funds</b>	\$	(162,344)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 505,396	
Current year depreciation	<u>(656,167)</u>	
Total		(150,771)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(22,878)	
Income taxes	5,241	
Earnings on investments	(1,163)	
Intergovernmental	<u>(20,184)</u>	
Total		(38,984)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		911,490
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(753,658)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	190,000	
Lease-purchase agreements	61,832	
Capital leases	<u>79,639</u>	
Total		331,471
Issuances of lease-purchase agreements and capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as revenue as they increase liabilities on the statement of net position on the statement of net position.		
Lease-purchase agreements	(613,506)	
Capital lease obligations	<u>(86,327)</u>	
Total		(699,833)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Change in accrued interest payable	(7,032)	
Accreted interest on capital appreciation bonds	(44,312)	
Amortization of bond premiums	15,372	
Amortization of deferred charges	<u>(9,370)</u>	
Total		(45,342)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Increase in compensated absences		<u>(58,872)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>(666,843)</u></b>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,399,367	\$ 2,489,618	\$ 2,505,289	\$ 15,671
Income taxes . . . . .	1,761,829	1,906,279	1,917,933	11,654
Tuition . . . . .	711,688	902,490	911,595	9,105
Earnings on investments . . . . .	17,691	11,779	13,580	1,801
Rental income . . . . .	6,112	6,112	6,112	-
Other local revenues . . . . .	(1,257)	34,972	29,980	(4,992)
Intergovernmental - intermediate . . . . .	48,568	44,727	48,320	3,593
Intergovernmental - state . . . . .	6,655,721	6,843,716	6,882,016	38,300
Intergovernmental - federal . . . . .	44,314	44,314	44,314	-
Total revenues . . . . .	<u>11,644,033</u>	<u>12,284,007</u>	<u>12,359,139</u>	<u>75,132</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	11,174,698	5,562,557	5,517,805	44,752
Special . . . . .	4,307	1,418,711	1,418,319	392
Vocational . . . . .	366	206,606	205,330	1,276
Other . . . . .	-	259,984	259,885	99
Support services:				
Pupil . . . . .	200	217,218	216,959	259
Instructional staff . . . . .	488,093	869,420	865,496	3,924
Board of education . . . . .	1,173	154,808	123,370	31,438
Administration . . . . .	184,441	1,051,419	1,044,333	7,086
Fiscal . . . . .	2,168	527,343	526,984	359
Operations and maintenance . . . . .	27,315	1,151,212	1,099,812	51,400
Pupil transportation . . . . .	72,495	899,419	898,627	792
Central . . . . .	4,168	133,034	132,996	38
Other operation of non-instructional services . . . . .	-	193,703	193,703	-
Extracurricular activities . . . . .	-	288,665	287,424	1,241
Facilities acquisition and construction . . . . .	-	15,400	15,369	31
Total expenditures . . . . .	<u>11,959,424</u>	<u>12,949,499</u>	<u>12,806,412</u>	<u>143,087</u>
Excess of expenditures over revenues . . . . .	<u>(315,391)</u>	<u>(665,492)</u>	<u>(447,273)</u>	<u>218,219</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	10,000	10,000	11,423	1,423
Transfers in . . . . .	80,000	80,000	4,600	(75,400)
Transfers (out) . . . . .	(90,000)	(4,600)	(4,600)	-
Sale of capital assets . . . . .	1,000	1,000	-	(1,000)
Total other financing sources (uses) . . . . .	<u>1,000</u>	<u>86,400</u>	<u>11,423</u>	<u>(74,977)</u>
Net change in fund balance . . . . .	(314,391)	(579,092)	(435,850)	143,242
<b>Fund balance at beginning of year . . . . .</b>	<b>1,059,920</b>	<b>1,059,920</b>	<b>1,059,920</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>227,604</b>	<b>227,604</b>	<b>227,604</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 973,133</b>	<b>\$ 708,432</b>	<b>\$ 851,674</b>	<b>\$ 143,242</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents . . . . .	\$ 41,578	\$ 51,164
Investments . . . . .	22,145	-
Total assets. . . . .	63,723	\$ 51,164
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 527
Due to students. . . . .	-	50,637
Total liabilities . . . . .	-	\$ 51,164
<b>Net position:</b>		
Held in trust for scholarships . . . . .	63,723	
Total net position. . . . .	\$ 63,723	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest. . . . .	\$ 2,497
Gifts and contributions. . . . .	1,500
Total additions. . . . .	3,997
<b>Deductions:</b>	
Scholarships awarded . . . . .	2,700
Change in net position . . . . .	1,297
<b>Net position at beginning of year. . . . .</b>	<b>62,426</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 63,723</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

The District employs 45 non-certified, 73 certified employees and 8 administrative employees to provide services to approximately 1,246 students in grades K through 12 and various community groups.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. During the fiscal year, the District paid NOECA \$33,689 for services. Financial information can be obtained by contacting the Controller, 1210 East Bogart Road, Sandusky, Ohio 44870.

Bay Area Council of Governments

The Bay Area Council of Governments consists of school districts representing multiple counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance. The only cost to the districts is an administrative charge if they purchase something through the Council. The District paid \$28,171 to the Bay Area Council of Governments in 2016. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of 1 elected representative from each county, and the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal officer). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the fiscal officer at 1210 East Bogart Road, Sandusky, Ohio 44870.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the fiscal officer at 1210 East Bogart Road, Sandusky, Ohio 44870.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of restricted resources and payment of general obligation bond and note principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*FIDUCIARY FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

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

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

**D. Basis of Accounting**

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

Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows of resources, and in the presentation of expenses versus expenditures.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5).

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, See Note 14 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, See Note 14 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2016 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2016.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund level of expenditures for the general fund.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2016; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
9. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

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

During fiscal year 2016, investments were limited to negotiable certificates of deposit, shares of common stock (see below) and a money market mutual fund. Investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$25,114, which includes \$11,124 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its private-purpose trust fund. No public funds were used to acquire the stock. At June 30, 2016, the common stock value was \$17,572. The amount of common stock available for expenditure is reported in net position available in trust for scholarships on the statement of fiduciary net position.

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

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

**G. Inventory**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

**H. Capital Assets**

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

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

All reported capital assets except land 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:

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

**I. Compensated Absences**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

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

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

**K. 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 classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

*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 (the highest level of decision making authority). 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 nor 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 policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

*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 only used to report a deficit fund 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 restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

**L. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**M. Prepayments**

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

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

**N. Issuance Costs/Bond Premiums and Discounts and Accounting Gain or Loss on Debt Refunding**

On the governmental fund financial statements, issuance costs, bond premiums, bond discounts, and charges from debt refunding are recognized in the current period.

On the government-wide financial statements, issuance costs are recognized in the current period and are not amortized. Bond premiums and discounts are amortized over the term of the bonds using the straight-line method. Unamortized bond premiums are presented as an addition to the face amount of the bonds reported on the statement of net position. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statement of net position. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.A.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

**O. Estimates**

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

**P. Stabilization Arrangement**

The Board of Education has \$400,000 of fund balance in the general fund to be used for budget stabilization. The Board has these funds to cover emergency situations or when revenue shortages or budgetary imbalances arise. The budget stabilization arrangement may be removed by action of the Board of Education at any time.

**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 basic financial statements.

**R. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**S. 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 2016.

**T. Fair Market Value**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 8,116
Title I	12,343

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

**A. Cash on Hand**

At fiscal year end, the District had \$3 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

**B. Cash with Escrow agent**

The District has \$250,984 reported as "with escrow agent" that is held related to a District construction project. This amount is not included in "deposits with financial institutions" below.

**C. Deposits with Financial Institutions**

At June 30, 2016, the carrying amount of all District deposits was \$1,268,166. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$1,128,421 of the District's bank balance of \$1,378,421 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**D. Investments**

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>Greater than 24 months</u>
Donated stock	\$ 17,572	\$ 17,572	\$ -
Donated money market	4,574	4,574	-
Negotiable CDs	698,351	-	698,351
Total	<u>\$ 720,497</u>	<u>\$ 22,146</u>	<u>\$ 698,351</u>

The weighted average maturity of investments is 3.61 years.

The District's investments in donated stock and negotiable CDs are valued using quoted market prices (Level 1 inputs).

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

*Credit Risk:* The District's donated stock was rated AA- by Standard & Poor's. The District's investment policy does not specifically address credit risk beyond adherence to all relevant sections of the Ohio Revised Code.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Donated stock	\$ 17,572	2.44
Donated money market	4,574	0.63
Negotiable CDs	698,351	96.93
Total	<u>\$ 720,497</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,268,166
Investments	720,498
Cash with escrow agent	250,984
Cash on hand	<u>3</u>
Total	<u><u>\$ 2,239,651</u></u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,124,764
Private-purpose trust funds	63,723
Agency funds	<u>51,164</u>
Total	<u><u>\$ 2,239,651</u></u>

**NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Huron and Erie Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$356,867 in the general fund, \$37,668 in the bond retirement fund and \$6,596 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$518,849 in the general fund, \$56,794 in the bond retirement fund and \$10,427 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 5 - PROPERTY TAXES - (Continued)**

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 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 inflows.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 123,521,210	96.63	\$ 135,156,660	96.83
Public utility personal	4,309,600	3.37	4,421,550	3.17
<b>Total</b>	<b><u>\$ 127,830,810</u></b>	<b><u>100.00</u></b>	<b><u>\$ 139,578,210</u></b>	<b><u>100.00</u></b>
Tax rate per \$1,000 of assessed valuation	\$33.85		\$33.75	

**NOTE 6 - SCHOOL DISTRICT INCOME TAX**

The voters of the District have passed 2 income tax levies. The first income tax levy was passed in May of 1990 and established a 3/4% income tax effective January 1, 1991, for an indefinite period of time. The second income tax levy was passed in March of 1996 and established an additional 1/2% income tax effective January 1, 1998 for an indefinite period of time. School district income tax revenue received by the general fund during fiscal year 2016 was \$1,790,977.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2016 consisted of property taxes, income taxes, accrued interest and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

<b>Governmental activities:</b>	
Property taxes	\$ 2,905,508
Income taxes	760,854
Accrued interest	3,278
Intergovernmental	<u>68,471</u>
<b>Total</b>	<b><u>\$ 3,738,111</u></b>

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/16</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 292,868	\$ -	\$ -	\$ 292,868
Construction in progress	-	402,762	-	402,762
Total capital assets, not being depreciated	<u>292,868</u>	<u>402,762</u>	<u>-</u>	<u>695,630</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	685,285	-	-	685,285
Buildings and improvements	22,416,615	-	-	22,416,615
Furniture and equipment	4,485,953	16,307	-	4,502,260
Vehicles	1,216,194	86,327	-	1,302,521
Total capital assets, being depreciated	<u>28,804,047</u>	<u>102,634</u>	<u>-</u>	<u>28,906,681</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(573,213)	(17,486)	-	(590,699)
Buildings and improvements	(8,814,613)	(503,382)	-	(9,317,995)
Furniture and equipment	(4,096,825)	(61,376)	-	(4,158,201)
Vehicles	(825,462)	(73,923)	-	(899,385)
Total accumulated depreciation	<u>(14,310,113)</u>	<u>(656,167)</u>	<u>-</u>	<u>(14,966,280)</u>
Governmental activities capital assets, net	<u>\$ 14,786,802</u>	<u>\$ (150,771)</u>	<u>\$ -</u>	<u>\$ 14,636,031</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 365,373
Special	33,949
Vocational	27,358
<u>Support services:</u>	
Pupil	346
Instructional staff	2,214
Administration	22,379
Business	786
Operations and maintenance	38,567
Pupil transportation	73,923
Extracurricular activities	30,959
Food service operations	<u>60,313</u>
Total depreciation expense	<u>\$ 656,167</u>



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2016 and prior fiscal years, the District entered into a capital lease for the acquisition of buses. The leases meet the criteria of a capital lease as defined by GAAP, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. The capital lease transaction was accounted for as capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balance of governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

The buses have been capitalized in the amount of \$400,359. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016, was \$123,500, leaving a current book value of \$276,859. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2016 totaled \$79,639 in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2016.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 68,162
2018	52,181
2019	35,621
2020	<u>18,290</u>
Total minimum lease payments	174,254
Less: amount representing interest	<u>(9,911)</u>
Total	<u><u>\$ 164,343</u></u>

**NOTE 10 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE**

During fiscal year 2016, the District entered into a lease-purchase agreement with Key Government Finance, Inc. to complete energy conservation upgrades in the District. This lease meets the criteria of a lease-purchase as defined by GAAP, which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. At June 30, 2016, capital assets acquired by lease purchase have been capitalized under construction in progress in the amount of \$402,762. Lease-purchase payments have been reflected as debt service expenditures from the general fund. Principal and interest payments totaled \$61,832 and \$9,677, respectively.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 10 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2016.

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Total</u>
2017	\$ 71,509
2018	71,510
2019	71,509
2020	71,510
2021	71,509
2022-2025	<u>286,038</u>
Total minimum lease payments	643,585
Less: amount representing interest	<u>(91,911)</u>
Present value of minimum lease payments	<u><u>\$ 551,674</u></u>

**NOTE 11- LONG-TERM OBLIGATIONS**

A. During fiscal year 2016, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
<u>General obligation bonds:</u>					
Series 2010, current interest bonds	\$ 1,775,000	\$ -	\$ (190,000)	\$ 1,585,000	\$ -
Series 2010, capital appreciation bonds	35,000	-	-	35,000	35,000
Series 2010, accreted interest	<u>98,281</u>	<u>44,312</u>	<u>-</u>	<u>142,593</u>	<u>142,593</u>
Total general obligation bonds	<u>1,908,281</u>	<u>44,312</u>	<u>(190,000)</u>	<u>1,762,593</u>	<u>177,593</u>
Net pension liability	13,705,931	1,772,267	-	15,478,198	-
Compensated absences	455,116	80,233	(31,361)	503,988	6,318
Lease-purchase agreement obligation	-	613,506	(61,832)	551,674	63,472
Capital lease obligation	<u>157,655</u>	<u>86,327</u>	<u>(79,639)</u>	<u>164,343</u>	<u>63,312</u>
Total	<u><u>\$ 16,226,983</u></u>	<u><u>\$ 2,596,645</u></u>	<u><u>\$ (362,832)</u></u>	18,460,796	<u><u>\$ 310,695</u></u>
Add: unamortized premium				<u>115,276</u>	
Total on statement of net position				<u><u>\$ 18,576,072</u></u>	

Net pension liability - See Note 14 for details.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Compensated absences payable - The liability will be paid from the fund which the employee is paid, which is primarily the general fund.

Lease-purchase obligation - See Note 10 for details. At June 30, 2016, there were \$210,744 in unspent lease-purchase proceeds.

Capital lease obligation - See Note 9 for details.

Series 2010 Refunding General Obligation Bonds

On October 7, 2010, the District issued general obligation bonds (Series 2010 Refunding Bonds) to advance refund the Series 2001 current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The balance of the refunded current interest bonds at June 30, 2016, is \$1,620,000.

The refunding issue is comprised of both current interest bonds, par value \$2,540,000, and capital appreciation bonds par value \$35,000. The interest rates on the current interest bonds range from 2.00% - 4.00%. The capital appreciation bonds mature on December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date the accreted value at maturity for the capital appreciation bonds maturing each December 1, 2016 is \$205,000. Total accreted interest of \$142,593 has been included in the statement of net position at June 30, 2016.

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

The reacquisition price exceeded the net carrying amount of the old debt by \$124,146. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ -	\$ 54,532	\$ 54,532	\$ 35,000	\$ 170,000	\$ 205,000
2018	205,000	51,713	256,713	-	-	-
2019	215,000	45,803	260,803	-	-	-
2020	220,000	39,413	259,413	-	-	-
2021	225,000	32,456	257,456	-	-	-
2022 - 2026	720,000	44,000	764,000	-	-	-
Total	<u>\$ 1,585,000</u>	<u>\$ 267,917</u>	<u>\$ 1,852,917</u>	<u>\$ 35,000</u>	<u>\$ 170,000</u>	<u>\$ 205,000</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$11,565,309 (including available funds of \$623,270) and an unvoted debt margin of \$139,578.

**NOTE 12- OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences and Retirement Incentive**

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

***Non-Certified Employees***

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

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

***Certified Employees***

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

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

No employee took advantage of the retirement incentive in fiscal year 2016. No liability has been recorded for the retirement incentive payments.

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

**B. Health Benefits**

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

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

**NOTE 13 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2016, the District has contracted with Ohio Casualty to provide general liability, fleet, building and contents coverage.

The District had the following coverages in effect for fiscal year 2016:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ -
Aggregate	2,000,000	-
Excess Umbrella Liability	2,000,000	-
Fleet:		
Comprehensive	1,000,000	1,000
Collision	1,000,000	1,000
Building and contents	50,886,872	2,500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2015.

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**NOTE 13 - RISK MANAGEMENT - (Continued)**

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

For fiscal year 2016, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

*Plan Description - School Employees Retirement System (SERS)*

Plan Description –District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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 by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$214,813 for fiscal year 2016. Of this amount, \$12,378 is reported as pension and postemployment benefits payable.

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HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description –District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$696,677 for fiscal year 2016. Of this amount, \$120,080 is reported as pension and postemployment benefits payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04310100%	0.04738065%	
Proportion of the net pension liability current measurement date	<u>0.04536490%</u>	<u>0.04663892%</u>	
Change in proportionate share	<u>0.00226390%</u>	<u>-0.00074173%</u>	
Proportionate share of the net pension liability	\$ 2,588,565	\$ 12,889,633	\$ 15,478,198
Pension expense	\$ 195,769	\$ 557,889	\$ 753,658

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 40,999	\$ 588,907	\$ 629,906
Changes in proportionate share	86,833	-	86,833
District contributions subsequent to the measurement date	214,813	696,677	911,490
Total deferred outflows of resources	<u>\$ 342,645</u>	<u>\$ 1,285,584</u>	<u>\$ 1,628,229</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 71,820	\$ 952,041	\$ 1,023,861
Changes in proportionate share	-	169,645	169,645
Total deferred inflows of resources	<u>\$ 71,820</u>	<u>\$ 1,121,686</u>	<u>\$ 1,193,506</u>

\$911,490 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ 950	\$ (259,516)	\$ (258,566)
2018	950	(259,516)	(258,566)
2019	953	(259,516)	(258,563)
2020	53,159	245,769	298,928
Total	<u>\$ 56,012</u>	<u>\$ (532,779)</u>	<u>\$ (476,767)</u>

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
 Total	 <u>100.00 %</u>	

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease █ (6.75%)	Current █ Discount Rate (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$ 3,589,410	\$ 2,588,565	\$ 1,745,772

*Changes Between Measurement Date and Report Date* - In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$17,904,673	\$ 12,889,633	\$ 8,648,669

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide 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 2016, the District's surcharge obligation was \$25,201.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$25,201, \$33,653, and \$25,293, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$48,418, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported on fair value (GAAP basis) rather than cost (budget basis); and
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (435,850)
Net adjustment for revenue accruals	(242,489)
Net adjustment for expenditure accruals	(338,327)
Net adjustment for other sources/uses	688,410
Funds budgeted elsewhere	6,733
Adjustment for encumbrances	171,166
GAAP basis	<u>\$ (150,357)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, the uniform school supplies fund, the other grants fund and the public school support fund.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 17 – CONTINGENCIES – (Continued)**

**C. Foundation Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

**NOTE 18 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	199,961
Current year offsets	(90,956)
Prior year offset from bond proceeds	<u>(109,005)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

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

**NOTE 19 - DONOR RESTRICTED ENDOWMENTS**

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 20 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 171,166
Nonmajor governmental funds	<u>36,487</u>
	<u>\$ 207,653</u>

**NOTE 21 - CONTRACTUAL COMMITMENTS**

As of June 30, 2016, the District had the following contractual commitments outstanding:

<u>Vendor</u>	<u>Total Contract</u>	<u>Amount Paid</u>	<u>Remaining Commitment June 30, 2016</u>
Brewer Garrett	\$ 179,174	\$ (92,813)	\$ 86,361
Bay Mechanical	325,419	(238,584)	86,835
Radi-O-Sound	29,619	-	29,619
Squire Patton	<u>42,415</u>	<u>(31,125)</u>	<u>11,290</u>
Total	<u>\$ 576,627</u>	<u>\$ (362,522)</u>	<u>\$ 214,105</u>

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## **Required Supplementary Information**

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04536490%	0.04310100%	0.04310100%
District's proportionate share of the net pension liability	\$ 2,588,565	\$ 2,181,317	\$ 2,563,078
District's covered-employee payroll	\$ 1,365,721	\$ 1,252,446	\$ 1,296,091
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.16%	197.75%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

(1) Information prior to fiscal year 2014 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04663892%	0.04738065%	0.04738065%
District's proportionate share of the net pension liability	\$ 12,889,633	\$ 11,524,614	\$ 13,728,045
District's covered-employee payroll	\$ 4,865,993	\$ 4,840,992	\$ 5,065,400
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	238.06%	271.02%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

(1) Information prior to fiscal year 2014 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 214,813	\$ 180,002	\$ 173,589	\$ 179,379
Contributions in relation to the contractually required contribution	<u>(214,813)</u>	<u>(180,002)</u>	<u>(173,589)</u>	<u>(179,379)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,534,379	\$ 1,365,721	\$ 1,252,446	\$ 1,296,091
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 173,011	\$ 161,474	\$ 172,449	\$ 116,179	\$ 122,260	\$ 132,697
<u>(173,011)</u>	<u>(161,474)</u>	<u>(172,449)</u>	<u>(116,179)</u>	<u>(122,260)</u>	<u>(132,697)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,286,327	\$ 1,284,598	\$ 1,273,626	\$ 1,180,681	\$ 1,245,010	\$ 1,242,481
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 696,677	\$ 681,239	\$ 629,329	\$ 658,502
Contributions in relation to the contractually required contribution	<u>(696,677)</u>	<u>(681,239)</u>	<u>(629,329)</u>	<u>(658,502)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 4,976,264	\$ 4,865,993	\$ 4,840,992	\$ 5,065,400
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 666,872	\$ 664,744	\$ 665,147	\$ 619,638	\$ 618,442	\$ 642,792
<u>(666,872)</u>	<u>(664,744)</u>	<u>(665,147)</u>	<u>(619,638)</u>	<u>(618,442)</u>	<u>(642,792)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,129,785	\$ 5,113,415	\$ 5,116,515	\$ 4,766,446	\$ 4,757,246	\$ 4,944,554
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education:</i>		
<u>Child Nutrition Cluster:</u>		
School Breakfast Program	10.553	\$ 27,183
National School Lunch Program		
Non-Cash Assistance (Food Distribution)	10.555	31,727
Cash Assistance	10.555	211,088
Total National School Lunch Program		242,815
<b>Total U.S. Department of Agriculture</b>		<b>269,998</b>
 <b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through North Point Educational Service Center:</i>		
<u>Special Education Cluster (IDEA):</u>		
Special Education - Preschool Grants	84.173	6,400
 <i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster (IDEA):</u>		
Special Education - Grants to States	84.027	259,770
Total Special Education Cluster (IDEA)		266,170
Title I Grants to Local Educational Agencies	84.010	225,631
Improving Teacher Quality State Grants	84.367	38,251
<b>Total U.S. Department of Education</b>		<b>530,052</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 800,050</b>

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Western Reserve Local School District (the District) under programs of the federal government for the fiscal year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C – 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 D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the entitlement 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 AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Western Reserve Local School District  
Huron County  
3765 State Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Huron County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2017.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 21, 2017



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Western Reserve Local School District  
Huron County  
3765 State Route 20 East  
Collins, Ohio 44826-9514

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited Western Reserve Local School District, Huron County, Ohio's (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Western Reserve Local School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

The District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, Western Reserve Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 21, 2017



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control 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 weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Program's Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**

**HURON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 6, 2017**