

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2013**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

Board of Education  
Western Reserve Local School District  
3765 State Route 20  
Collins, Ohio 44826

We have reviewed the *Independent Auditor's Report* of the Western Reserve Local School District, Huron County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 30, 2014

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**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Western Reserve Local School District  
Collins, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio, as of and for the year ended June 30, 2013, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Western Reserve Local School District, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Ohio, as of June 30, 2013, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As described in Note 3 to the financial statements, the Western Reserve Local School District, Ohio, adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated its June 30, 2012 net position of governmental activities. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Reserve Local School District, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the Western Reserve Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Western Reserve Local School District, Ohio's internal control over financial reporting and compliance.



**James G. Zupka, CPA, Inc.  
Certified Public Accountants**

December 16, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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 2013 are as follows:

- In total, net position of governmental activities decreased \$597,657 which represents a 3.87% decrease from 2012's restated amount (see Note 3.A).
- General revenues accounted for \$10,372,342 in revenue or 80.73% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,475,278 or 19.27% of total revenues of \$12,847,620.
- The District had \$13,445,277 in expenses related to governmental activities; \$2,475,278 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 \$10,372,342 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 \$11,420,190 in revenues and other financing sources and \$11,694,116 in expenditures. During fiscal year 2013, the general fund's fund balance decreased \$273,926 from a balance of \$899,053 to a balance of \$625,127.
- The bond retirement fund had \$292,083 in revenues and \$254,801 in expenditures. During fiscal year 2013, the bond retirement fund's fund balance increased \$37,282 from a balance of \$444,440 to a balance of \$481,722.

**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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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 2013?" 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.

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.

The District's statement of net position and statement of activities can be found on pages 14-15 of this report.

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

***Fund Financial Statements***

The analysis of the District's major governmental fund begins on page 10. 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. The basic governmental fund financial statements can be found on pages 16-20 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

***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 on pages 21 and 22. 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. These notes to the basic financial statements can be found on pages 23-52 of this report.

**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, 2013 and June 30, 2012. The net position at June 30, 2012 has been restated as described in Note 3.A. In addition, certain 2012 amounts have been reclassified to conform to current year presentation as related to (1) the treatment of accreted interest on capital appreciation bonds and (2) new reporting standards implemented in fiscal year 2013 (see Note 3.A).

	<b>Net Position</b>	
	Governmental Activities	Restated Governmental Activities
	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 5,683,068	\$ 5,696,121
Capital assets, net	<u>15,872,196</u>	<u>16,493,809</u>
Total assets	<u>21,555,264</u>	<u>22,189,930</u>
<b><u>Deferred outflows of resources</u></b>	<u>98,380</u>	<u>107,749</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,502,489	1,388,225
Long-term liabilities	<u>2,957,576</u>	<u>3,192,776</u>
Total liabilities	<u>4,460,065</u>	<u>4,581,001</u>
<b><u>Deferred inflows of resources</u></b>	<u>2,357,514</u>	<u>2,282,956</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	13,528,915	14,009,900
Restricted	793,648	761,302
Unrestricted	<u>513,502</u>	<u>662,520</u>
Total net position	<u>\$ 14,836,065</u>	<u>\$ 15,433,722</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$14,836,065.

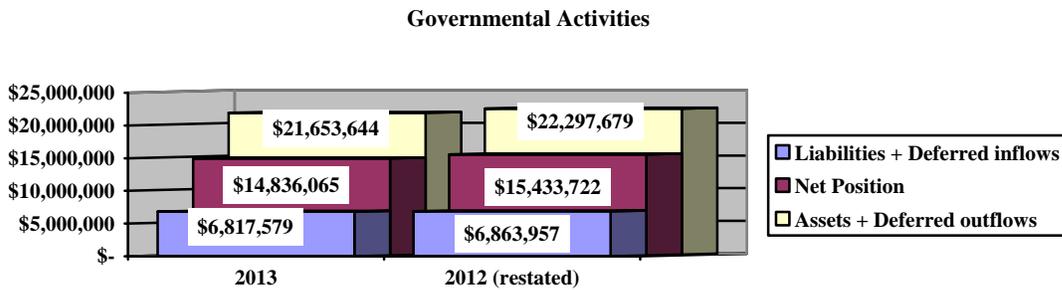
**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

At fiscal year-end, capital assets represented 73.64% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets at June 30, 2013 was \$13,528,915. 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, \$793,648, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$513,502 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2013 and June 30, 2012 as restated. Amounts for fiscal year 2012 have been restated to conform to new reporting standards implemented in fiscal year 2013 (see Note 3.A).



The table below shows the change in net position for fiscal years 2013 and 2012 as restated. Certain amounts for fiscal year 2012 have been restated to conform to new reporting standards implemented in fiscal year 2013 (see Note 3.A).

**Change in Net Position**

	Governmental Activities 2013	Restated Governmental Activities 2012
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,159,471	\$ 1,218,380
Operating grants and contributions	1,315,807	1,252,815
General revenues:		
Property taxes	2,578,148	2,585,746
School district income tax	1,819,778	1,887,459
Grants and entitlements	5,915,155	5,882,972
Investment earnings	2,081	9,168
Other	57,180	61,397
<b>Total revenues</b>	<b>12,847,620</b>	<b>12,897,937</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Change in Net Position**

	Governmental Activities 2013	Restated Governmental Activities 2012
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,936,244	\$ 5,891,705
Special	1,564,364	1,453,975
Vocational	207,468	204,932
Other	171,798	260,833
Support services:		
Pupil	187,865	227,613
Instructional staff	739,430	796,848
Board of education	104,097	82,531
Administration	941,833	948,136
Fiscal	477,094	478,326
Business	27,485	38,862
Operations and maintenance	978,408	1,129,367
Pupil transportation	780,657	693,705
Central	30,227	38,769
Operation of non-instructional services		
Other non-instructional services	222,206	203,895
Food service operations	493,935	503,785
Extracurricular activities	500,508	521,380
Interest and fiscal charges	81,658	79,041
Total expenses	<u>13,445,277</u>	<u>13,553,703</u>
Change in net position	(597,657)	(655,766)
Net position at beginning of year (restated)	<u>15,433,722</u>	<u>16,089,488</u>
Net position at end of year	<u>\$ 14,836,065</u>	<u>\$ 15,433,722</u>

**Governmental Activities**

Net position of the District's governmental activities decreased \$597,657. Total governmental expenses of \$13,445,277 were offset by program revenues of \$2,475,278 and general revenues of \$10,372,342. Program revenues supported 18.41% of the total governmental expenses.

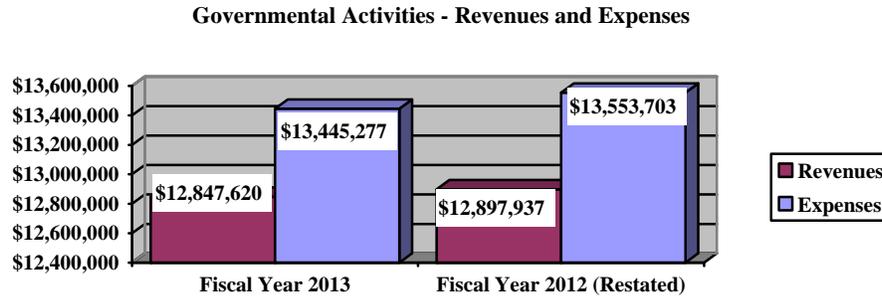
The primary sources of revenue for governmental activities are derived from property and income taxes, and unrestricted grants and entitlements. These revenue sources represent 80.27% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,879,874 or 58.61% of total governmental expenses for fiscal 2013.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2013 and 2012. Amounts for fiscal year 2012 have been restated to conform to new reporting standards implemented in fiscal year 2013 (see Note 3.A).



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. Certain amounts for fiscal year 2012 have been restated to conform to new reporting standards implemented in fiscal year 2013 (see Note 3.A).

	<b>Governmental Activities</b>			
	Total Cost of Services 2013	Net Cost of Services 2013	Restated Total Cost of Services 2012	Restated Net Cost of Services 2012
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,936,244	\$ 5,153,508	\$ 5,891,705	\$ 5,077,824
Special	1,564,364	657,076	1,453,975	615,002
Vocational	207,468	148,517	204,932	145,759
Other	171,798	171,798	260,833	260,833
Support services:				
Pupil	187,865	181,318	227,613	223,274
Instructional staff	739,430	739,430	796,848	796,848
Board of education	104,097	104,097	82,531	82,531
Administration	941,833	889,380	948,136	902,857
Fiscal	477,094	477,094	478,326	478,326
Business	27,485	5,582	38,862	14,848
Operations and maintenance	978,408	964,756	1,129,367	1,116,495
Pupil transportation	780,657	757,388	693,705	668,569
Central	30,227	30,227	38,769	38,769
Operation of non-instructional services				
Other non-instructional services	222,206	222,206	203,895	203,895
Food service operations	493,935	79,595	503,785	68,018
Extracurricular activities	500,508	306,369	521,380	309,619
Interest and fiscal charges	81,658	81,658	79,041	79,041
<b>Total expenses</b>	<u>\$ 13,445,277</u>	<u>\$ 10,969,999</u>	<u>\$ 13,553,703</u>	<u>\$ 11,082,508</u>

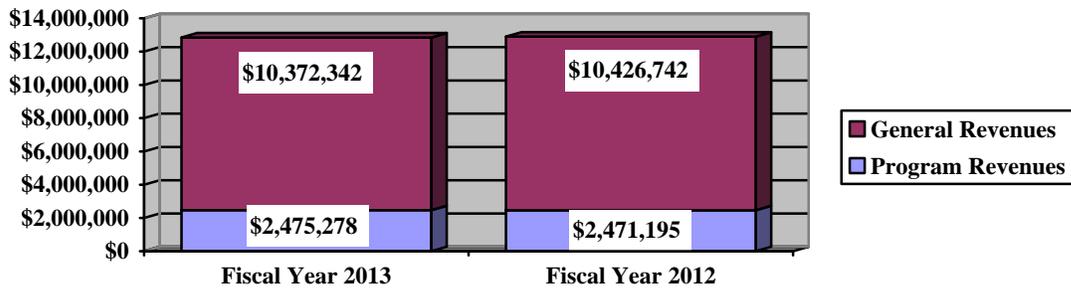
**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The dependence upon tax and other general revenues for governmental activities is apparent; 77.80% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.59%. The District's taxpayers along with the State foundation revenues, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2013 and 2012.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,416,703 which is \$260,213 lower than last year's balance of \$1,676,916. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance June 30, 2013	Fund Balance June 30, 2012	Increase/ (Decrease)
General	\$ 625,127	\$ 899,053	\$ (273,926)
Bond retirement	481,722	444,440	37,282
Other governmental	309,854	333,423	(23,569)
<b>Total</b>	<b>\$ 1,416,703</b>	<b>\$ 1,676,916</b>	<b>\$ (260,213)</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

***General Fund***

The District's general fund balance decreased \$273,926. The following table shows the changes in revenues and expenditures in the general fund from 2013 and 2012.

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 4,093,391	\$ 4,044,035	\$ 49,356	1.22 %
Tuition	728,890	728,420	470	0.06 %
Earnings on investments	1,556	6,976	(5,420)	(77.69) %
Intergovernmental	6,375,470	6,315,154	60,316	0.96 %
Other revenues	<u>145,203</u>	<u>161,390</u>	<u>(16,187)</u>	(10.03) %
<b>Total</b>	<b><u>\$ 11,344,510</u></b>	<b><u>\$ 11,255,975</u></b>	<b><u>\$ 88,535</u></b>	<b>0.79 %</b>
<b><u>Expenditures</u></b>				
Instruction	\$ 7,009,040	\$ 6,827,275	\$ 181,765	2.66 %
Support services	4,065,727	4,178,111	(112,384)	(2.69) %
Non-instructional services	222,206	203,895	18,311	8.98 %
Extracurricular activities	289,373	264,468	24,905	9.42 %
Facilities acquisition and construction	-	1,761	(1,761)	(100.00) %
Capital outlay	75,680	76,000	(320)	(0.42) %
Debt service	<u>32,090</u>	<u>25,597</u>	<u>6,493</u>	25.37 %
<b>Total</b>	<b><u>\$ 11,694,116</u></b>	<b><u>\$ 11,577,107</u></b>	<b><u>\$ 117,009</u></b>	<b>1.01 %</b>

Overall revenues only increased \$88,535 or 0.79%. The increase in tax revenue of \$49,356 can be attributed to an increase in income tax revenue from the prior fiscal year. Although the decrease in earnings on investments was 77.69% the variance from prior year of \$5,420 was not significant to the overall revenues of the District.

Expenditures of the general fund increased \$117,009 or 1.01%. The increase in instruction expenditures can be attributed to an increase in regular expenditures for normal and customary increases in salaries, wages and benefits costs. In addition, special instruction expenditures increased approximately \$110,000 due to increased costs related to the education of students with special needs. The capital outlay expenditures in 2013 relate to a new capital lease the District entered into during the fiscal year for the acquisition of a bus.

***Bond Retirement Fund***

The bond retirement fund had \$292,083 in revenues and \$254,801 in expenditures. During fiscal year 2013, the bond retirement fund's fund balance increased \$37,282 from a balance of \$444,440 to a balance of \$481,722.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

***General Fund Budgeting Highlights***

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

For the general fund, original and final budgeted revenues and other financing sources were both \$11,277,835. The actual revenues and other financing sources for fiscal 2013 were \$11,322,541 which represents an increase of \$44,706 from final budgeted revenues.

General fund appropriations (appropriated expenditures and other financing uses) were \$11,690,675 for the original appropriations and increased to \$11,885,676 for final appropriations. The actual budget basis expenditures for fiscal year 2013 totaled \$11,752,581 which is \$133,095 less than the final appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2013, the District had \$15,872,196 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2013 balances compared to 2012:

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

	Governmental Activities	
	2013	2012
Land	\$ 292,868	\$ 292,868
Land improvements	153,000	184,777
Building and improvements	14,608,768	15,112,150
Furniture and equipment	449,299	537,895
Vehicles	368,261	366,119
Total	\$ 15,872,196	\$ 16,493,809

The overall decrease in capital assets of \$621,613 is due to depreciation expense of \$692,730 and disposals of \$58,816 (net of accumulated depreciation) exceeding capital outlays of \$129,933 in the fiscal year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

***Debt Administration***

At June 30, 2013, the District had \$2,320,337 in general obligation bonds and capital leases outstanding. Of this total, \$209,059 is due within one year and \$2,111,278 is due in more than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
General obligation bonds	\$ 2,175,000	\$ 2,355,000
Accreted interest	40,068	21,337
Capital lease	<u>105,269</u>	<u>59,894</u>
Total	<u>\$ 2,320,337</u>	<u>\$ 2,436,231</u>

At June 30, 2013, the District's voted debt margin was \$9,664,282 and an unvoted debt margin of \$126,195.

See Note 10 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.

The State of Ohio has greatly reduced funding programs to local school districts, including ours. Effective with the fiscal year 2012 school year, general fund revenues provided by the State through tax reimbursement and the foundation formula have been reduced in excess of \$433,000 annually. The State of Ohio has adopted a funding formula for fiscal years 2014 and 2015, resulting in a modest increase to the District.

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

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET POSITION  
JUNE 30, 2013

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,925,795
Receivables:	
Property taxes . . . . .	2,908,224
Income taxes. . . . .	772,995
Accrued interest . . . . .	1,711
Intergovernmental . . . . .	37,303
Prepayments . . . . .	31,744
Materials and supplies inventory. . . . .	5,296
Capital assets:	
Nondepreciable capital assets . . . . .	292,868
Depreciable capital assets, net. . . . .	<u>15,579,328</u>
Capital assets, net . . . . .	<u>15,872,196</u>
Total assets. . . . .	<u>21,555,264</u>
 <b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	<u>98,380</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	338,875
Accrued wages and benefits payable . . . . .	852,865
Pension obligation payable. . . . .	195,738
Intergovernmental payable . . . . .	109,811
Accrued interest payable . . . . .	5,200
Long-term liabilities:	
Due within one year. . . . .	278,013
Due in more than one year. . . . .	<u>2,679,563</u>
Total liabilities . . . . .	<u>4,460,065</u>
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	<u>2,357,514</u>
 <b>Net position:</b>	
Net investment in capital assets . . . . .	13,528,915
Restricted for:	
Capital projects . . . . .	182,598
Classroom facilities maintenance . . . . .	55,148
Debt service. . . . .	458,914
State funded programs. . . . .	2,986
Federally funded programs . . . . .	9,430
Student activities . . . . .	84,572
Unrestricted . . . . .	<u>513,502</u>
Total net position. . . . .	<u>\$ 14,836,065</u>

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, 2013

	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 . . . . .	\$ 5,936,244	\$ 728,890	\$ 53,846	\$ (5,153,508)
Special . . . . .	1,564,364	-	907,288	(657,076)
Vocational . . . . .	207,468	-	58,951	(148,517)
Other . . . . .	171,798	-	-	(171,798)
Support services:				
Pupil . . . . .	187,865	-	6,547	(181,318)
Instructional staff . . . . .	739,430	-	-	(739,430)
Board of education . . . . .	104,097	-	-	(104,097)
Administration . . . . .	941,833	52,453	-	(889,380)
Fiscal . . . . .	477,094	-	-	(477,094)
Business . . . . .	27,485	21,903	-	(5,582)
Operations and maintenance . . . . .	978,408	13,652	-	(964,756)
Pupil transportation . . . . .	780,657	-	23,269	(757,388)
Central . . . . .	30,227	-	-	(30,227)
Operation of non-instructional services:				
Other non-instructional services . . . . .	222,206	-	-	(222,206)
Food service operations . . . . .	493,935	149,209	265,131	(79,595)
Extracurricular activities . . . . .	500,508	193,364	775	(306,369)
Interest and fiscal charges . . . . .	81,658	-	-	(81,658)
Total governmental activities . . . . .	<u>\$ 13,445,277</u>	<u>\$ 1,159,471</u>	<u>\$ 1,315,807</u>	<u>(10,969,999)</u>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				2,282,508
Debt service . . . . .				250,083
Classroom facilities maintenance . . . . .				45,557
School district income tax . . . . .				1,819,778
Grants and entitlements not restricted to specific programs . . . . .				5,915,155
Investment earnings . . . . .				2,081
Miscellaneous . . . . .				57,180
Total general revenues . . . . .				<u>10,372,342</u>
Change in net position . . . . .				(597,657)
<b>Net position at beginning of year (restated) . . . . .</b>				<u>15,433,722</u>
<b>Net position at end of year . . . . .</b>				<u>\$ 14,836,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	<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 . . . . .	\$ 1,104,673	\$ 451,043	\$ 370,079	\$ 1,925,795
Receivables:				
Property taxes . . . . .	2,572,960	284,160	51,104	2,908,224
Income taxes . . . . .	772,995	-	-	772,995
Accrued interest . . . . .	1,711	-	-	1,711
Intergovernmental . . . . .	36,435	-	868	37,303
Prepayments . . . . .	31,744	-	-	31,744
Materials and supplies inventory . . . . .	-	-	5,296	5,296
Total assets . . . . .	<u>\$ 4,520,518</u>	<u>\$ 735,203</u>	<u>\$ 427,347</u>	<u>\$ 5,683,068</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 317,953	\$ -	\$ 20,922	\$ 338,875
Accrued wages and benefits payable . . . . .	815,151	-	37,714	852,865
Compensated absences payable . . . . .	52,222	-	-	52,222
Intergovernmental payable . . . . .	106,298	-	3,513	109,811
Pension obligation payable . . . . .	185,848	-	9,890	195,738
Total liabilities . . . . .	<u>1,477,472</u>	<u>-</u>	<u>72,039</u>	<u>1,549,511</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	2,085,243	231,021	41,250	2,357,514
Delinquent property tax revenue not available . . . . .	206,771	22,460	4,204	233,435
Accrued interest not available . . . . .	1,711	-	-	1,711
Income tax revenue not available . . . . .	123,085	-	-	123,085
Intergovernmental revenue not available . . . . .	1,109	-	-	1,109
Total deferred inflows of resources . . . . .	<u>2,417,919</u>	<u>253,481</u>	<u>45,454</u>	<u>2,716,854</u>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory . . . . .	-	-	5,296	5,296
Prepays . . . . .	31,744	-	-	31,744
Restricted:				
Debt service . . . . .	-	481,722	-	481,722
Capital improvements . . . . .	-	-	182,598	182,598
Classroom facilities maintenance . . . . .	-	-	50,944	50,944
Targeted academic assistance . . . . .	-	-	9,430	9,430
Other purposes . . . . .	-	-	2,986	2,986
Extracurricular activities . . . . .	-	-	84,572	84,572
Assigned:				
Student instruction . . . . .	46,520	-	-	46,520
Student and staff support . . . . .	113,618	-	-	113,618
Capital improvements . . . . .	346,946	-	-	346,946
School supplies . . . . .	1,364	-	-	1,364
Other purposes . . . . .	2,745	-	-	2,745
Unassigned (deficit) . . . . .	82,190	-	(25,972)	56,218
Total fund balances . . . . .	<u>625,127</u>	<u>481,722</u>	<u>309,854</u>	<u>1,416,703</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 4,520,518</u>	<u>\$ 735,203</u>	<u>\$ 427,347</u>	<u>\$ 5,683,068</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, 2013

<b>Total governmental fund balances</b>		\$	1,416,703
<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.			15,872,196
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	233,435	
Income taxes receivable		123,085	
Accrued interest receivable		1,711	
Intergovernmental receivable		1,109	
Total		1,109	359,340
Unamortized premiums on bonds issued are not recognized in the funds.			(161,392)
Unamortized deferred charges on debt refundings are not recognized in the funds.			98,380
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(5,200)
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		(2,215,068)	
Capital lease obligations		(105,269)	
Compensated absences		(423,625)	
Total		(2,743,962)	(2,743,962)
<b>Net position of governmental activities</b>		<b>\$</b>	<b>14,836,065</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, 2013

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,280,396	\$ 252,220	\$ 45,510	\$ 2,578,126
Income taxes . . . . .	1,812,995	-	-	1,812,995
Tuition . . . . .	728,890	-	-	728,890
Earnings on investments . . . . .	1,556	-	1,533	3,089
Charges for services . . . . .	-	-	149,209	149,209
Extracurricular . . . . .	52,468	-	193,349	245,817
Classroom materials and fees . . . . .	21,903	-	-	21,903
Rental income . . . . .	13,652	-	-	13,652
Contributions and donations . . . . .	-	-	775	775
Other local revenues . . . . .	57,180	-	-	57,180
Intergovernmental - intermediate . . . . .	49,696	-	-	49,696
Intergovernmental - state . . . . .	6,325,774	39,863	63,847	6,429,484
Intergovernmental - federal . . . . .	-	-	750,974	750,974
Total revenues . . . . .	<u>11,344,510</u>	<u>292,083</u>	<u>1,205,197</u>	<u>12,841,790</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,506,953	-	54,300	5,561,253
Special . . . . .	1,104,667	-	439,008	1,543,675
Vocational . . . . .	176,030	-	3,996	180,026
Other . . . . .	221,390	-	-	221,390
Support services:				
Pupil . . . . .	183,625	-	6,547	190,172
Instructional staff . . . . .	738,657	-	-	738,657
Board of education . . . . .	104,097	-	-	104,097
Administration . . . . .	914,533	-	-	914,533
Fiscal . . . . .	464,870	7,370	1,306	473,546
Business . . . . .	26,506	-	-	26,506
Operations and maintenance . . . . .	903,256	-	81,847	985,103
Pupil transportation . . . . .	713,564	-	-	713,564
Central . . . . .	16,619	-	-	16,619
Operation of non-instructional services:				
Other non-instructional services . . . . .	222,206	-	-	222,206
Food service operations . . . . .	-	-	462,361	462,361
Extracurricular activities . . . . .	289,373	-	179,401	468,774
Capital outlay . . . . .	75,680	-	-	75,680
Debt service:				
Principal retirement . . . . .	30,305	180,000	-	210,305
Interest and fiscal charges . . . . .	1,785	67,431	-	69,216
Total expenditures . . . . .	<u>11,694,116</u>	<u>254,801</u>	<u>1,228,766</u>	<u>13,177,683</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(349,606)</u>	<u>37,282</u>	<u>(23,569)</u>	<u>(335,893)</u>
<b>Other financing sources:</b>				
Capital lease transaction . . . . .	75,680	-	-	75,680
Total other financing sources . . . . .	<u>75,680</u>	<u>-</u>	<u>-</u>	<u>75,680</u>
Net change in fund balances . . . . .	(273,926)	37,282	(23,569)	(260,213)
<b>Fund balances at beginning of year . . . . .</b>	<u>899,053</u>	<u>444,440</u>	<u>333,423</u>	<u>1,676,916</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 625,127</u>	<u>\$ 481,722</u>	<u>\$ 309,854</u>	<u>\$ 1,416,703</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, 2013

<b>Net change in fund balances - total governmental funds</b>	\$	(260,213)
<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	\$ 129,933	
Current year depreciation	(692,730)	
Total		(562,797)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(58,816)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	22	
Income taxes	6,783	
Earnings on investments	(975)	
Total		5,830
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	180,000	
Capital leases	30,305	
Total		210,305
Issuances of 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.		
Capital leases	(75,680)	
Total		(75,680)
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:		
Decrease in accrued interest payable	286	
Accreted interest on capital appreciation bonds	(18,731)	
Amortization of bond premiums	15,372	
Amortization of deferred charges on debt refundings	(9,369)	
Total		(12,442)
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.		
		156,156
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(597,657)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 2,342,700	\$ 2,342,700	\$ 2,332,114	\$ (10,586)
Income taxes. . . . .	1,800,000	1,800,000	1,785,172	(14,828)
Tuition. . . . .	718,000	718,000	728,890	10,890
Earnings on investments . . . . .	24,300	12,800	13,413	613
Extracurricular. . . . .	60	60	15	(45)
Rental income . . . . .	-	11,500	13,652	2,152
Other local revenues . . . . .	65,800	65,800	67,055	1,255
Intergovernmental - intermediate . . . . .	49,500	49,500	49,696	196
Intergovernmental - state . . . . .	6,269,475	6,269,475	6,322,848	53,373
Total revenues . . . . .	<u>11,269,835</u>	<u>11,269,835</u>	<u>11,312,855</u>	<u>43,020</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,661,500	5,543,870	5,485,377	58,493
Special. . . . .	1,001,350	1,134,029	1,125,448	8,581
Vocational. . . . .	183,120	188,369	179,247	9,122
Other. . . . .	273,860	242,178	238,645	3,533
Support services:				
Pupil. . . . .	208,400	194,385	190,591	3,794
Instructional staff . . . . .	872,435	776,962	764,012	12,950
Board of education . . . . .	99,400	107,160	107,101	59
Administration. . . . .	884,865	928,682	917,663	11,019
Fiscal . . . . .	448,475	464,399	457,282	7,117
Business . . . . .	5,000	1,651	1,651	-
Operations and maintenance. . . . .	898,675	953,131	941,900	11,231
Pupil transportation . . . . .	623,855	814,925	812,079	2,846
Central. . . . .	22,500	32,348	32,302	46
Operation of non-instructional services:				
Other non-instructional services . . . . .	225,000	222,207	222,206	1
Extracurricular activities. . . . .	280,240	274,913	272,610	2,303
Facilities acquisition and construction . . . . .	2,000	2,000	-	2,000
Total expenditures . . . . .	<u>11,690,675</u>	<u>11,881,209</u>	<u>11,748,114</u>	<u>133,095</u>
Excess of expenditures over revenues . . . . .	<u>(420,840)</u>	<u>(611,374)</u>	<u>(435,259)</u>	<u>176,115</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	6,000	6,000	8,956	2,956
Transfers (out). . . . .	-	(4,467)	(4,467)	-
Sale of capital assets . . . . .	2,000	2,000	730	(1,270)
Total other financing sources (uses) . . . . .	<u>8,000</u>	<u>3,533</u>	<u>5,219</u>	<u>1,686</u>
Net change in fund balance . . . . .	(412,840)	(607,841)	(430,040)	177,801
<b>Fund balance at beginning of year . . . . .</b>	<b>957,651</b>	<b>957,651</b>	<b>957,651</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>229,439</b>	<b>229,439</b>	<b>229,439</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<u><u>\$ 774,250</u></u>	<u><u>\$ 579,249</u></u>	<u><u>\$ 757,050</u></u>	<u><u>\$ 177,801</u></u>

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, 2013

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 53,263	\$ 50,109
Investments . . . . .	19,126	-
Total assets. . . . .	72,389	\$ 50,109
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 6,414
Intergovernmental payable . . . . .	-	841
Due to students. . . . .	-	42,854
Total liabilities . . . . .	-	\$ 50,109
<b>Net position:</b>		
Held in trust for scholarships . . . . .	72,389	
Total net position. . . . .	\$ 72,389	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 1,254
Gifts and contributions . . . . .	4,028
Total additions. . . . .	5,282
<b>Deductions:</b>	
Scholarships awarded . . . . .	9,174
Change in net position . . . . .	(3,892)
<b>Net position at beginning of year. . . . .</b>	<b>76,281</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 72,389</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, 2013**

**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 53 non-certified, 78 certified employees and 8 administrative employees to provide services to approximately 1,263 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, 2013**

**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 \$36,840 for services. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

Bay Area Council of Governments

The Bay Area Council of Governments consists of school districts representing multiple counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance. The only cost to the districts is an administrative charge if they purchase something through the Council. The District paid \$49,298 to the Bay Area Council of Governments in 2013. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of 1 elected representative from each county, and the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal officer).

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

North Point Purchasing Cooperative

The North Point Purchasing Cooperative (the "Cooperative") is composed of 15 school districts in four counties. The purpose of the Cooperative is to obtain competitive prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the Cooperative; currently there are no fees assessed to the members. There are nine Directors elected from the member districts. Any district withdrawing from the Cooperative forfeits its claim to any and all Cooperative assets. Sixty days notice is necessary prior to withdrawal from the group; during this time, the withdrawing member is liable for all member obligations. To obtain further information regarding the Cooperative, contact the North Point Purchasing Cooperative, Matt Bauer, who serves as Administrator, at 2900 Columbus Avenue, Sandusky, Ohio 44870.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Huron-Erie School Employees Insurance Association

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

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net 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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

**D. Basis of Accounting**

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

Revenues - Exchange and Nonexchange Transactions - 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 Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. For the District, deferred outflows of resources include a deferral of refunding reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of the refunding debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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. The specific timetable for fiscal year 2013 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 2013.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures for the general fund.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
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, 2013; 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 2013, 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 2013 amounted to \$1,556.

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, 2013, the common stock value was \$16,044. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**G. Inventory**

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

On the fund financial statements, reported material and supplies inventory is equally offset by a 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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2013, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees at least age fifty with at least ten years of service or any age with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 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 and capital lease 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

*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.

*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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

On the fund financials 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 deferred 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 10.A.

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 \$325,000 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. For the District, the implementation of GASB Statement No. 65 has changed (1) the classification of certain items, including the deferral of property taxes levied for the subsequent fiscal year, previously reported as liabilities to *deferred inflows of resources*, (2) the classification of unamortized deferred charges on debt refunding transactions from a reduction of liabilities to *deferred outflows of resources*, (3) the reporting of debt issuance costs to an expense in the period incurred rather than amortized over the term of the related debt issuance and (4) net assets of the District as previously reported to remove unamortized bond issuance costs previously reported. The implementation of GASB Statement No. 65 had the following effect on net assets as previously reported:

	Governmental Activities
Net assets as previously reported	\$ 15,502,741
Removal of unamortized bond issuance costs	(69,019)
Net position at July 1, 2012	\$ 15,433,722

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficit:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 20,438
Race to the top	5
Improving teacher quality	233

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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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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**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 \$15 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. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all District deposits was \$1,535,897. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$1,491,458 of the District's bank balance of \$1,741,458 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, 2013

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

**C. Investments**

As of June 30, 2013, 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>7 to 12 months</u>	<u>Greater than 24 months</u>
Donated stock	\$ 16,044	\$ 16,044	\$ -	\$ -
Money market mutual fund	3,082	3,082	-	-
Negotiable CD	<u>493,255</u>	<u>-</u>	<u>99,449</u>	<u>393,806</u>
Total	<u>\$ 512,381</u>	<u>\$ 19,126</u>	<u>\$ 99,449</u>	<u>\$ 393,806</u>

The weighted average maturity of investments is 3.44 years.

*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 investments in negotiable CD's are fully covered by the FDIC. 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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Donated stock	\$ 16,044	3.13
Money market mutual fund	3,082	0.60
Negotiable CD	<u>493,255</u>	<u>96.27</u>
Total	<u>\$ 512,381</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**D. 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, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,535,897
Investments	512,381
Cash on hand	<u>15</u>
Total	<u>\$ 2,048,293</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,925,795
Private-purpose trust funds	72,389
Agency funds	<u>50,109</u>
Total	<u>\$ 2,048,293</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 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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 advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$280,946 in the general fund, \$30,679 in the bond retirement fund and \$5,650 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$332,664 in the general fund, \$39,823 in the bond retirement fund and \$6,757 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013 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 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 122,953,530	97.18	\$ 122,342,830	96.95
Public utility personal	<u>3,572,910</u>	<u>2.82</u>	<u>3,852,280</u>	<u>3.05</u>
Total	<u>\$ 126,526,440</u>	<u>100.00</u>	<u>\$ 126,195,110</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$34.05		\$33.85

**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 2013 was \$1,812,995.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2013 consisted of 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:

**Governmental activities:**

Property taxes	\$ 2,908,224
Income taxes	772,995
Accrued interest	1,711
Intergovernmental	<u>37,303</u>
Total	<u>\$ 3,720,233</u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 06/30/12	Additions	Deductions	Balance 06/30/13
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 292,868	\$ -	\$ -	\$ 292,868
Total capital assets, not being depreciated	<u>292,868</u>	<u>-</u>	<u>-</u>	<u>292,868</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	4,406,864	54,253	(58,930)	4,402,187
Vehicles	1,068,387	75,680	(51,900)	1,092,167
Total capital assets, being depreciated	<u>28,577,151</u>	<u>129,933</u>	<u>(110,830)</u>	<u>28,596,254</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(500,508)	(31,777)	-	(532,285)
Buildings and improvements	(7,304,465)	(503,382)	-	(7,807,847)
Furniture and equipment	(3,868,969)	(89,223)	5,304	(3,952,888)
Vehicles	(702,268)	(68,348)	46,710	(723,906)
Total accumulated depreciation	<u>(12,376,210)</u>	<u>(692,730)</u>	<u>52,014</u>	<u>(13,016,926)</u>
Governmental activities capital assets, net	<u>\$ 16,493,809</u>	<u>\$ (562,797)</u>	<u>\$ (58,816)</u>	<u>\$ 15,872,196</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 389,930
Special	34,636
Vocational	27,544
 <u>Support services:</u>	
Pupil	346
Instructional staff	3,470
Administration	29,721
Business	979
Operations and maintenance	33,064
Pupil transportation	68,348
Central	13,608
Extracurricular activities	31,734
Food service operations	<u>59,350</u>
 Total depreciation expense	 <u><u>\$ 692,730</u></u>

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

During fiscal year 2013 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 \$154,080. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013, was \$23,479, leaving a current book value of \$130,601. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2013 totaled \$30,305 in the general fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

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, 2013.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 32,088
2015	32,089
2016	32,088
2017	<u>15,983</u>
Total minimum lease payments	112,248
Less: amount representing interest	<u>(6,979)</u>
Total	<u>\$ 105,269</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/13</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
<u>General obligation bonds:</u>					
Series 2010, current interest bonds	\$ 2,320,000	\$ -	\$ (180,000)	\$ 2,140,000	\$ 180,000
Series 2010, capital appreciation bonds	35,000	-	-	35,000	-
Series 2010, accreted interest	<u>21,337</u>	<u>18,731</u>	<u>-</u>	<u>40,068</u>	<u>-</u>
Total general obligation bonds	<u>2,376,337</u>	<u>18,731</u>	<u>(180,000)</u>	<u>2,215,068</u>	<u>180,000</u>
<u>Other Obligations:</u>					
Compensated absences	579,781	22,345	(126,279)	475,847	68,954
Capital lease obligation	<u>59,894</u>	<u>75,680</u>	<u>(30,305)</u>	<u>105,269</u>	<u>29,059</u>
Total other obligations	<u>639,675</u>	<u>98,025</u>	<u>(156,584)</u>	<u>581,116</u>	<u>98,013</u>
Total	<u>\$ 3,016,012</u>	<u>\$ 116,756</u>	<u>\$ (336,584)</u>	2,796,184	<u>\$ 278,013</u>
Add: unamortized premium				<u>161,392</u>	
Total on statement of net position				<u>\$ 2,957,576</u>	

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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, 2013, is \$2,290,000.

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 \$40,068 has been included in the statement of net position at June 30, 2013.

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, 2013, are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 180,000	\$ 63,831	\$ 243,831	\$ -	\$ -	\$ -
2015	185,000	60,181	245,181	-	-	-
2016	190,000	56,431	246,431	-	-	-
2017	-	224,532	224,532	35,000	170,000	205,000
2018	205,000	51,713	256,713	-	-	-
2019 - 2023	1,130,000	156,672	1,286,672	-	-	-
2024	250,000	5,000	255,000	-	-	-
Total	<u>\$ 2,140,000</u>	<u>\$ 618,360</u>	<u>\$ 2,758,360</u>	<u>\$ 35,000</u>	<u>\$ 170,000</u>	<u>\$ 205,000</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - 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, 2013, are a voted debt margin of \$9,664,282 (including available funds of \$481,722) and an unvoted debt margin of \$126,195.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences and Retirement Incentive**

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

***Non-Certified Employees***

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

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.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)**

No employee took advantage of the retirement incentive in fiscal year 2013. No liability has been recorded for the retirement incentive payments since no payments were made during the fiscal year.

**B. Health Benefits**

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

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

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2013, 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 2013:

<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	48,929,685	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 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

For fiscal year 2013, 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 14. As such, no funding provisions are required by the District.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$169,788, \$163,364 and \$151,711, respectively; 71.69 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 13 - PENSION PLANS - (Continued)**

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

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$658,502, \$666,872 and \$664,744, respectively; 84.09 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$13,617 made by the District and \$9,726 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$22,450, \$26,979 and \$44,737, respectively; 71.69 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$9,591, \$9,647 and \$9,763, respectively; 71.69 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

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

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$50,654, \$51,298 and \$51,134, respectively; 84.09 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**NOTE 15 - 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);
- (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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (430,040)
Net adjustment for revenue accruals	(45,627)
Net adjustment for expenditure accruals	(186,821)
Net adjustment for other sources/uses	70,461
Funds budgeted elsewhere	10,118
Adjustment for encumbrances	307,983
GAAP basis	\$ (273,926)

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 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 17 - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 17 - SET-ASIDES - (Continued)**

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, 2012	\$ -
Current year set-aside requirement	209,103
Current year qualifying expenditures	(53,749)
Prior year offset from bond proceeds	<u>(155,354)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

**NOTE 18 - 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.

**NOTE 19 - 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	\$ 128,740
Nonmajor governmental funds	<u>55,848</u>
Nonmajor governmental funds	<u>\$ 184,588</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>					
<i>Passed through the Ohio Department of Education</i>					
Child Nutrition Cluster:					
National School Breakfast Program	10.553	\$ 26,829	\$ 0	\$ 26,829	\$ 0
National School Lunch Program - See Note 2	10.555	<u>202,547</u>	<u>48,812</u>	<u>202,547</u>	<u>48,812</u>
Total Child Nutrition Cluster		<u>229,376</u>	<u>48,812</u>	<u>229,376</u>	<u>48,812</u>
<b>Total U.S. Department of Agriculture</b>		<u>229,376</u>	<u>48,812</u>	<u>229,376</u>	<u>48,812</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed through the Ohio Department of Education</i>					
Title I, Grants to Local Educational Agencies, Part A, ESEA	84.010	<u>170,442</u>	<u>0</u>	<u>156,683</u>	<u>0</u>
Special Education - Grants to States, IDEA, Part B	84.027	<u>270,783</u>	<u>0</u>	<u>270,783</u>	<u>0</u>
ARRA - Educational Technology State Grants, Recovery Act	84.386	<u>1,018</u>	<u>0</u>	<u>1,018</u>	<u>0</u>
Improving Teacher Quality State Grants, Title II-A	84.367	<u>42,322</u>	<u>0</u>	<u>42,322</u>	<u>0</u>
ARRA - State Fiscal Stabilization Fund - Race to the Top Incentive Grants, Recovery Act	84.395A	<u>700</u>	<u>0</u>	<u>700</u>	<u>0</u>
<b>Total U.S. Department of Education</b>		<u>485,265</u>	<u>0</u>	<u>471,506</u>	<u>0</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 714,641</u>	<u>\$ 48,812</u>	<u>\$ 700,882</u>	<u>\$ 48,812</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2013**

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**NOTE 1: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Western Reserve Local School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NOTE 2: NONCASH SUPPORT**

The District receives noncash support in the form of food subsidies from the National School Lunch Program (NSLP), CFDA 10.555. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

**NOTE 3: INTERFUND TRANSFERS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. During fiscal year 2013, the District had no ODE authorized transfers.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Western Reserve Local School District  
Collins, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Reserve Local School District, Huron County, Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Western Reserve Local School District, Ohio's basic financial statements, and have issued our report thereon dated December 16, 2013, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated its June 30, 2012 net position of governmental activities.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Western Reserve Local School District, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Reserve Local School District, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Reserve Local School District, Ohio's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Western Reserve Local School District, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Western Reserve Local School District, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**James G. Zupka, CPA, Inc.  
Certified Public Accountants**

December 16, 2013

**JAMES G. ZUPKA, C.P.A., INC.**

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*5240 East 98<sup>th</sup> Street*

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Board of Education  
Western Reserve Local School District  
Collins, Ohio

**Report on Compliance for Each Major Federal Program**

We have audited the Western Reserve Local School District, Huron County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Western Reserve Local School District, Ohio's major federal programs for the year ended June 30, 2013. The Western Reserve Local School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Western Reserve Local School District, Ohio's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Western Reserve Local School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Western Reserve Local School District, Ohio's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the Western Reserve Local School District, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2013.

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

Management of the Western Reserve Local School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Western Reserve Local School District, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Western Reserve Local School District, Ohio'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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**James G. Zupka, CPA, Inc.  
Certified Public Accountants**

December 16, 2013

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & §.505  
JUNE 30, 2013**

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

2013(i)	Type of Financial Statement Opinion	Unmodified
2013(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2013(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2013(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2013(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2013(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2013(v)	Type of Major Programs' Compliance Opinion	Unmodified
2013(vi)	Are there any reportable findings under .510?	No
2013(vii)	Major Programs (list):  Special Education - Grants to States, IDEA, Part B - CFDA #84.027 Child Nutrition Cluster: National School Breakfast Program - CFDA #10.553 National School Lunch Program - CFDA #10.555	
2013(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2013(ix)	Low Risk Auditee?	No

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

None.

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

None.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2013**

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The prior audit report, as of June 30, 2012, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit report.



# Dave Yost • Auditor of State

**WESTERN RESERVE LOCAL SCHOOL DISTRICT**

**CUYAHOGA 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  
FEBRUARY 11, 2014**