



OHIO AUDITOR OF STATE
KEITH FABER



**WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY
JUNE 30, 2018**

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HURON COUNTY
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Huron County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Huron County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

March 20, 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The management's discussion and analysis of the Western Reserve Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- Net position of governmental activities increased \$5,668,501 which represents an increase of 86.08% from restated June 30, 2017's restated net position.
- General revenues accounted for \$11,760,460 in revenue or 81.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,728,643 or 18.83% of total revenues of \$14,489,103.
- The District had \$8,820,602 in expenses related to governmental activities; \$2,728,643 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 \$11,760,460 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$13,073,859 in revenues and other financing sources and \$12,887,574 in expenditures. During fiscal year 2018, the general fund's fund balance increased \$186,285 from a balance of \$479,998 to a balance of \$666,283.
- The bond retirement fund had \$300,135 in revenues and \$263,034 in expenditures. During fiscal year 2018, the bond retirement fund's fund balance increased \$37,101 from a balance of \$677,124 to a balance of \$714,225.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2018?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

Required Supplemental Information

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The District as a Whole

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

The table below provides a summary of the District's net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities 2018	Restated Governmental Activities 2017
<u>Assets</u>		
Current and other assets	\$ 5,522,280	\$ 5,300,562
Capital assets, net	13,693,825	14,239,323
Total assets	19,216,105	19,539,885
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	51,530	60,900
Pension	4,484,421	3,678,488
OPEB	263,477	27,109
Total deferred outflows of resources	4,799,428	3,766,497
<u>Liabilities</u>		
Current liabilities	1,308,730	1,369,952
Long-term liabilities:		
Due within one year	398,198	355,857
Due in more than one year:		
Net pension liability	14,250,685	19,204,427
Net OPEB liability	3,285,191	3,899,879
Other amounts	2,300,681	2,599,731
Total liabilities	21,543,485	27,429,846
<u>Deferred Inflows of Resources</u>		
Property taxes levied for the next fiscal year	2,259,798	2,334,825
Pension	728,608	127,234
OPEB	400,664	-
Total deferred inflows of resources	3,389,070	2,462,059
<u>Net Position</u>		
Net investment in capital assets	11,669,536	11,951,139
Restricted	903,437	845,112
Unrestricted (deficit)	(13,489,995)	(19,381,774)
Total net position (deficit)	\$ (917,022)	\$ (6,585,523)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The net pension liability (NPL) is the largest single liability reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." For fiscal year 2018, the District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$(2,712,753) to \$(6,585,523).

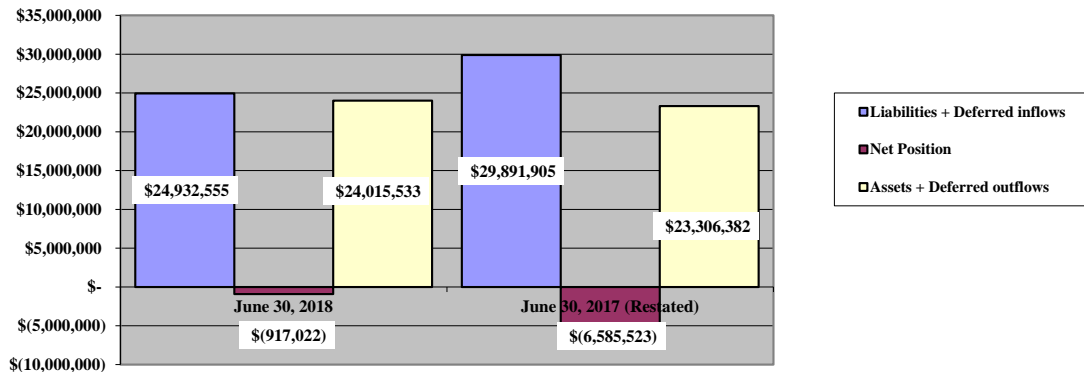
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$917,022.

At fiscal year-end, capital assets represented 71.26% 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, 2018 was \$11,669,536. 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, \$903,437, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$13,489,995.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2018 and June 30, 2017. The amounts at June 30, 2017 have been restated as described in Note 3.A.

Governmental Activities



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The table below shows the change in net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	Change in Net Position	
	Governmental	Restated
	Activities	Governmental
	<u>2018</u>	<u>2017</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,314,805	\$ 1,334,149
Operating grants and contributions	1,413,838	1,468,909
General revenues:		
Property taxes	2,963,553	3,031,547
School district income tax	2,115,339	1,914,006
Grants and entitlements	6,639,275	6,643,614
Investment earnings	6,203	2,796
Miscellaneous	<u>36,090</u>	<u>22,881</u>
Total revenues	<u>\$ 14,489,103</u>	<u>\$ 14,417,902</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Change in Net Position (Continued)

	Governmental Activities	
	2018	Restated 2017
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,569,008	\$ 6,942,873
Special	1,081,623	2,154,782
Vocational	90,578	247,196
Other	84,693	214,082
Support services:		
Pupil	127,773	245,872
Instructional staff	634,174	670,094
Board of education	82,203	114,007
Administration	635,029	1,208,738
Fiscal	303,779	449,035
Business	16,414	19,116
Operations and maintenance	691,029	1,151,109
Pupil transportation	590,427	914,256
Central	55,721	136,623
Operation of non-instructional services		
Other non-instructional services	230,300	273,085
Food service operations	323,629	532,237
Extracurricular activities	238,063	519,069
Interest and fiscal charges	66,159	98,157
Total expenses	8,820,602	15,890,331
Change in net position	5,668,501	(1,472,429)
Net position (deficit) at beginning of year (restated)	(6,585,523)	N/A
Net position (deficit) at end of year	\$ (917,022)	\$ (6,585,523)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$27,109 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$419,167. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 8,820,602
Negative OPEB expense under GASB 75	419,167
2018 contractually required contributions	31,225
Adjusted 2018 program expenses	9,270,994
Total 2017 program expenses under GASB 45	15,890,331
Decrease in program expenses not related to OPEB	\$ (6,619,337)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

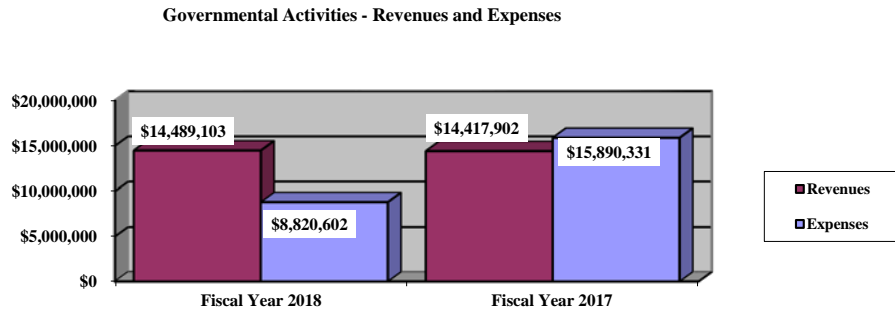
Governmental Activities

Net position of the District's governmental activities increased \$5,668,501. Total governmental expenses of \$8,820,602 were offset by program revenues of \$2,728,643 and general revenues of \$11,760,460. Program revenues supported 30.93% 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 80.88% of total governmental revenue.

Expenses of the governmental activities decreased \$7,069,729 or 44.49%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$4,245,713) in pension expense and (\$419,167) in OPEB expense mainly due to these benefit changes.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,825,902 or 54.71% of total governmental expenses for fiscal year 2018. The decrease can be attributable to a decrease in costs related to decreased salaries and benefits paid to employees.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2018 and 2017.



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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

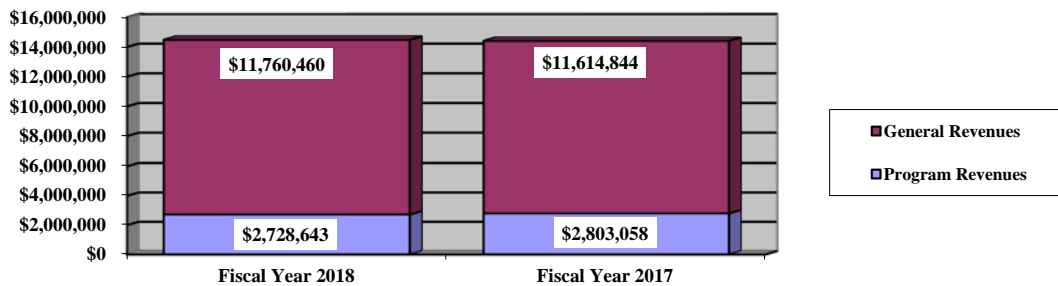
Governmental Activities

	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Program expenses				
Instruction:				
Regular	\$ 3,569,008	\$ 2,588,011	\$ 6,942,873	\$ 5,953,912
Special	1,081,623	132,953	2,154,782	1,159,181
Vocational	90,578	53,966	247,196	208,524
Other	84,693	84,693	214,082	214,082
Support services:				
Pupil	127,773	122,797	245,872	239,208
Instructional staff	634,174	634,174	670,094	670,094
Board of education	82,203	82,203	114,007	114,007
Administration	635,029	583,162	1,208,738	1,157,918
Fiscal	303,779	303,184	449,035	448,509
Business	16,414	(1,235)	19,116	(659)
Operations and maintenance	691,029	646,406	1,151,109	1,105,640
Pupil transportation	590,427	558,040	914,256	879,757
Central	55,721	55,721	136,623	136,623
Operation of non-instructional services				
Other non-instructional services	230,300	229,690	273,085	258,937
Food service operations	323,629	(127,305)	532,237	100,546
Extracurricular activities	238,063	79,340	519,069	342,837
Interest and fiscal charges	66,159	66,159	98,157	98,157
Total expenses	\$ 8,820,602	\$ 6,091,959	\$ 15,890,331	\$ 13,087,273

The dependence upon tax and other general revenues for governmental activities is apparent; 59.26% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 69.07%. 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 2018 and 2017.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The District's Funds

The District's governmental funds reported a combined fund balance of \$1,545,108 which is \$310,989 more than last year's balance of \$1,234,119. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Change
General	\$ 666,283	\$ 479,998	\$ 186,285
Bond retirement	714,225	677,124	37,101
Other governmental	164,600	76,997	87,603
Total	\$ 1,545,108	\$ 1,234,119	\$ 310,989

General Fund

The District's general fund balance increased \$186,285.

The following table shows the changes in revenues and expenditures in the general fund from fiscal year 2018 and 2017.

	2018 Amount	2017 Amount	Change	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,776,443	\$ 4,599,018	\$ 177,425	3.86 %
Tuition	933,113	939,363	(6,250)	(0.67) %
Earnings on investments	5,699	3,960	1,739	43.91 %
Intergovernmental	7,159,380	7,169,813	(10,433)	(0.15) %
Other revenues	114,018	102,548	11,470	11.19 %
Total	\$ 12,988,653	\$ 12,814,702	\$ 173,951	1.36 %
<u>Expenditures</u>				
Instruction	\$ 7,479,826	\$ 8,163,689	\$ (683,863)	(8.38) %
Support services	4,643,302	4,393,063	250,239	5.70 %
Non-instructional services	229,391	258,937	(29,546)	(11.41) %
Extracurricular activities	290,722	299,727	(9,005)	(3.00) %
Facilities acquisition and construction	-	210,846	(210,846)	(100.00) %
Capital outlay	85,206	82,323	2,883	3.50 %
Debt service	159,127	157,048	2,079	1.32 %
Total	\$ 12,887,574	\$ 13,565,633	\$ (678,059)	(5.00) %

Overall revenues increased \$173,951 or 1.36%. This year the largest increase in revenues was in taxes. Taxes increased \$177,425 due primarily to an increase in income taxes received. All other revenues were consistent with the previous fiscal year. These amounts are recorded as revenue under Accounting Principles Generally Accepted in the United States of America (GAAP).

Expenditures of the general fund decreased \$678,059 or 5.00%. The largest decreases were in the areas of instruction and facilities acquisition and construction. Instruction expenditures decreased due to salaries and benefits given to District employees decreasing caused by staffing level reductions. Facilities acquisition and construction decreased due to construction projects being completed in prior fiscal years. The increase in support services is primarily due to the large rise in instructional staff expenditures.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Bond Retirement Fund

The bond retirement fund had \$300,135 in revenues and \$263,034 in expenditures. During fiscal year 2018, the bond retirement fund's fund balance increased \$37,101 from a balance of \$677,124 to a balance of \$714,225.

General Fund Budgeting Highlights

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

For the general fund, original budgeted revenues and other financing sources were \$12,968,700 and they were increased to \$12,982,300 in the final budget. The actual revenues and other financing sources for fiscal year 2018 were \$12,925,702 which represents a decrease of \$56,598 from final budgeted revenues and other financing sources. General fund appropriations (appropriated expenditures and other financing uses) were \$13,048,177 for the original appropriations and increased to \$13,064,613 for final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$13,003,112 which is \$61,501 less than the final appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the District had \$13,693,825 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 June 30, 2018 balances compared to June 30, 2017:

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

	Governmental Activities	
	2018	2017
Land	\$ 292,868	\$ 292,868
Land improvements	62,355	77,100
Building and improvements	12,656,375	13,184,301
Furniture and equipment	273,441	289,230
Vehicles	408,786	395,824
Total	\$ 13,693,825	\$ 14,239,323

The overall decrease in capital assets of \$545,498 is due to depreciation expense of \$649,048 exceeding capital outlays of \$103,550 in the fiscal year.

See Note 9 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, 2018
(UNAUDITED)**

Debt Administration

At June 30, 2018, the District had \$1,991,287 in general obligation bonds, lease-purchase agreements and capital leases outstanding. Of this total, \$338,291 is due within one year and \$1,652,996 is due in more than one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
General obligation bonds	\$ 1,380,000	\$ 1,585,000
Lease-purchase agreement	442,923	498,202
Capital lease	<u>168,364</u>	<u>165,978</u>
Total	<u>\$ 1,991,287</u>	<u>\$ 2,249,180</u>

See Note 12 to the basic financial statements for additional information.

Current Financial Related Activities

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

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 1,393,452
Receivables:	
Property taxes	3,031,632
Income taxes	885,272
Accounts	48,781
Accrued interest	3,940
Intergovernmental	107,935
Prepayments	45,764
Materials and supplies inventory	1,751
Inventory held for resale	3,753
Capital assets:	
Nondepreciable capital assets	292,868
Depreciable capital assets, net	13,400,957
Capital assets, net	13,693,825
Total assets	19,216,105
Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	51,530
Pension	4,484,421
OPEB	263,477
Total deferred outflows of resources	4,799,428
Liabilities:	
Accounts payable	179,856
Accrued wages and benefits payable	886,094
Intergovernmental payable	72,043
Pension and postemployment benefits payable	160,329
Accrued interest payable	10,408
Long-term liabilities:	
Due within one year	398,198
Due in more than one year:	
Net pension liability	14,250,685
Net OPEB liability	3,285,191
Other amounts due in more than one year	2,300,681
Total liabilities	21,543,485
Deferred inflows of resources:	
Property taxes levied for the next fiscal year	2,259,798
Pension	728,608
OPEB	400,664
Total deferred inflows of resources	3,389,070
Net position:	
Net investment in capital assets	11,669,536
Restricted for:	
Capital projects	344
Classroom facilities maintenance	78,921
Debt service	714,389
Student activities	109,783
Unrestricted (deficit)	(13,489,995)
Total net position (deficit)	\$ (917,022)

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, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 3,569,008	\$ 933,113	\$ 47,884	\$ (2,588,011)
Special	1,081,623	-	948,670	(132,953)
Vocational	90,578	-	36,612	(53,966)
Other	84,693	-	-	(84,693)
Support services:				
Pupil	127,773	-	4,976	(122,797)
Instructional staff	634,174	-	-	(634,174)
Board of education	82,203	-	-	(82,203)
Administration	635,029	51,867	-	(583,162)
Fiscal	303,779	-	595	(303,184)
Business	16,414	17,649	-	1,235
Operations and maintenance	691,029	8,412	36,211	(646,406)
Pupil transportation	590,427	-	32,387	(558,040)
Central	55,721	-	-	(55,721)
Operation of non-instructional services:				
Other non-instructional services	230,300	-	610	(229,690)
Food service operations	323,629	146,081	304,853	127,305
Extracurricular activities	238,063	157,683	1,040	(79,340)
Interest and fiscal charges	66,159	-	-	(66,159)
Total governmental activities	<u>\$ 8,820,602</u>	<u>\$ 1,314,805</u>	<u>\$ 1,413,838</u>	<u>(6,091,959)</u>
General revenues:				
Property taxes levied for:				
General purposes				2,655,290
Debt service				259,770
Classroom facilities maintenance				48,493
School district income tax				2,115,339
Grants and entitlements not restricted to specific programs				6,639,275
Investment earnings				6,203
Miscellaneous				36,090
Total general revenues				<u>11,760,460</u>
Change in net position				5,668,501
Net position (deficit) at beginning of year (restated)				<u>(6,585,523)</u>
Net position (deficit) at end of year				<u>\$ (917,022)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments.	\$ 546,692	\$ 656,715	\$ 190,045	\$ 1,393,452
Receivables:				
Property taxes.	2,727,948	254,070	49,614	3,031,632
Income taxes	885,272	-	-	885,272
Accounts	48,781	-	-	48,781
Accrued interest	3,940	-	-	3,940
Interfund loans	2,372	-	-	2,372
Intergovernmental.	103,752	-	4,183	107,935
Prepayments.	45,479	-	285	45,764
Materials and supplies inventory.	-	-	1,751	1,751
Inventory held for resale.	-	-	3,753	3,753
Total assets	<u>\$ 4,364,236</u>	<u>\$ 910,785</u>	<u>\$ 249,631</u>	<u>\$ 5,524,652</u>
Liabilities:				
Accounts payable	\$ 173,032	\$ -	\$ 6,824	\$ 179,856
Accrued wages and benefits payable	864,762	-	21,332	886,094
Compensated absences payable	48,022	-	-	48,022
Intergovernmental payable	71,588	-	455	72,043
Pension and postemployment benefits payable	149,374	-	10,955	160,329
Interfund loans payable.	-	-	2,372	2,372
Total liabilities.	<u>1,306,778</u>	<u>-</u>	<u>41,938</u>	<u>1,348,716</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	2,036,914	185,988	36,896	2,259,798
Delinquent property tax revenue not available.	107,948	10,572	2,014	120,534
Income tax revenue not available	151,319	-	-	151,319
Intergovernmental revenue not available.	94,068	-	4,183	98,251
Accrued interest not available.	926	-	-	926
Total deferred inflows of resources	<u>2,391,175</u>	<u>196,560</u>	<u>43,093</u>	<u>2,630,828</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	1,751	1,751
Prepays.	45,479	-	285	45,764
Restricted:				
Debt service	-	714,225	-	714,225
Capital improvements	-	-	344	344
Classroom facilities maintenance	-	-	76,907	76,907
Extracurricular activities.	-	-	109,783	109,783
Assigned:				
Student instruction	23,385	-	-	23,385
Student and staff support.	39,059	-	-	39,059
Public school support	42,391	-	-	42,391
School supplies	5,065	-	-	5,065
Unassigned (deficit).	510,904	-	(24,470)	486,434
Total fund balances	<u>666,283</u>	<u>714,225</u>	<u>164,600</u>	<u>1,545,108</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,364,236</u>	<u>\$ 910,785</u>	<u>\$ 249,631</u>	<u>\$ 5,524,652</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, 2018

Total governmental fund balances		\$	1,545,108
<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.			13,693,825
Other long-term assets are not available to pay for current-period expenditures and therefore is unavailable revenue in the funds.			
Delinquent property taxes receivable	\$	120,534	
Income taxes receivable		151,319	
Accrued interest receivable		926	
Intergovernmental receivable		98,251	
Total		371,030	371,030
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - Pension		4,484,421	
Deferred Inflows - Pension		(728,608)	
Net pension liability		(14,250,685)	
Total		(10,494,872)	(10,494,872)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - OPEB		263,477	
Deferred Inflows - OPEB		(400,664)	
Net OPEB liability		(3,285,191)	
Total		(3,422,378)	(3,422,378)
Unamortized premiums on bonds issued are not recognized in the funds.			(84,532)
Unamortized amounts on refundings are not recognized in the funds.			51,530
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(10,408)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(1,380,000)	
Lease-purchase obligations		(442,923)	
Capital lease obligations		(168,364)	
Compensated absences		(575,038)	
Total		(2,566,325)	(2,566,325)
Net position (deficit) of governmental activities		\$	(917,022)

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, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 2,673,729	\$ 262,542	\$ 48,829	\$ 2,985,100
Income taxes.	2,102,714	-	-	2,102,714
Tuition.	933,113	-	-	933,113
Earnings on investments	5,699	-	110	5,809
Charges for services	-	-	146,081	146,081
Extracurricular.	51,867	-	157,683	209,550
Classroom materials and fees	17,649	-	-	17,649
Rental income	8,412	-	-	8,412
Contributions and donations	-	-	1,040	1,040
Other local revenues	36,090	-	-	36,090
Intergovernmental - intermediate	57,403	-	-	57,403
Intergovernmental - state	7,056,251	37,593	54,667	7,148,511
Intergovernmental - federal	45,726	-	797,622	843,348
Total revenues	<u>12,988,653</u>	<u>300,135</u>	<u>1,206,032</u>	<u>14,494,820</u>
Expenditures:				
Current:				
Instruction:				
Regular.	5,980,749	-	51,746	6,032,495
Special	1,168,246	-	426,781	1,595,027
Vocational	193,610	-	-	193,610
Other	137,221	-	-	137,221
Support services:				
Pupil	238,939	-	4,976	243,915
Instructional staff	947,269	-	-	947,269
Board of education	86,853	-	-	86,853
Administration	1,134,528	-	-	1,134,528
Fiscal	431,561	6,322	1,152	439,035
Business.	16,144	-	-	16,144
Operations and maintenance	895,275	-	70,072	965,347
Pupil transportation	770,552	-	-	770,552
Central	122,181	-	-	122,181
Operation of non-instructional services				
Other non-instructional services.	229,391	-	909	230,300
Food service operations.	-	-	419,535	419,535
Extracurricular activities	290,722	-	143,258	433,980
Capital outlay	85,206	-	-	85,206
Debt service:				
Principal retirement.	138,099	205,000	-	343,099
Interest and fiscal charges	21,028	51,712	-	72,740
Total expenditures	<u>12,887,574</u>	<u>263,034</u>	<u>1,118,429</u>	<u>14,269,037</u>
Excess of revenues over expenditures.	<u>101,079</u>	<u>37,101</u>	<u>87,603</u>	<u>225,783</u>
Other financing sources:				
Capital lease transaction	<u>85,206</u>	<u>-</u>	<u>-</u>	<u>85,206</u>
Net change in fund balances	186,285	37,101	87,603	310,989
Fund balances at beginning of year.	<u>479,998</u>	<u>677,124</u>	<u>76,997</u>	<u>1,234,119</u>
Fund balances at end of year.	<u>\$ 666,283</u>	<u>\$ 714,225</u>	<u>\$ 164,600</u>	<u>\$ 1,545,108</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, 2018

Net change in fund balances - total governmental funds	\$	310,989
<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	\$ 103,550	
Current year depreciation	(649,048)	
Total		(545,498)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	(21,547)	
Income taxes	12,625	
Earnings on investments	502	
Intergovernmental	21,254	
Total		12,834
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		912,588
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		4,245,713
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		31,225
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		
		419,167
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	205,000	
Lease-purchase agreements	55,279	
Capital leases	82,820	
Total		343,099
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.		
		(85,206)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Change in accrued interest payable	579	
Amortization of bond premiums	15,372	
Amortization of deferred charges	(9,370)	
Total		6,581
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.		
Decrease in compensated absences		17,009
Change in net position of governmental activities	\$	5,668,501

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, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 2,594,242	\$ 2,597,000	\$ 2,598,585	\$ 1,585
Income taxes	2,067,902	2,070,100	2,070,976	876
Tuition	952,987	954,000	933,113	(20,887)
Earnings on investments	2,576	2,588	3,615	1,027
Rental income	8,412	8,412	8,412	-
Other local revenues	23,201	23,274	36,090	12,816
Intergovernmental - intermediate	51,945	52,000	54,927	2,927
Intergovernmental - state	7,046,509	7,054,000	7,031,735	(22,265)
Intergovernmental - federal	45,726	45,726	45,726	-
Total revenues	<u>12,793,500</u>	<u>12,807,100</u>	<u>12,783,179</u>	<u>(23,921)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,999,787	5,843,663	5,834,535	9,128
Special	3,110,690	1,333,520	1,333,449	71
Vocational	27,655	196,365	196,357	8
Other	307	136,057	136,046	11
Support services:				
Pupil	-	237,908	237,895	13
Instructional staff	655,723	961,825	961,796	29
Board of education	321,101	134,233	134,231	2
Administration	441,246	1,098,460	1,098,390	70
Fiscal	1,056,562	494,096	494,065	31
Operations and maintenance	1,438,043	1,055,400	1,038,375	17,025
Pupil transportation	1,094,550	879,643	879,394	249
Central	67,600	133,515	133,511	4
Other operation of non-instructional services	798,913	229,391	229,391	-
Extracurricular activities	-	294,537	293,305	1,232
Total expenditures	<u>13,012,177</u>	<u>13,028,613</u>	<u>13,000,740</u>	<u>27,873</u>
Excess of expenditures over revenues	<u>(218,677)</u>	<u>(221,513)</u>	<u>(217,561)</u>	<u>3,952</u>
Other financing sources (uses):				
Refund of prior year's expenditures	170,000	170,000	120,736	(49,264)
Transfers (out)	(18,000)	(18,000)	-	18,000
Advances in	5,000	5,000	21,552	16,552
Advances (out)	(18,000)	(18,000)	(2,372)	15,628
Sale of capital assets	200	200	235	35
Total other financing sources (uses)	<u>139,200</u>	<u>139,200</u>	<u>140,151</u>	<u>951</u>
Net change in fund balance	(79,477)	(82,313)	(77,410)	4,903
Fund balance at beginning of year	446,534	446,534	446,534	-
Prior year encumbrances appropriated	55,409	55,409	55,409	-
Fund balance at end of year	<u>\$ 422,466</u>	<u>\$ 419,630</u>	<u>\$ 424,533</u>	<u>\$ 4,903</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, 2018

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 36,795	\$ 68,784
Investments	23,311	-
Total assets.	60,106	\$ 68,784
Liabilities:		
Accounts payable.	\$ -	\$ 1,018
Due to students.	-	67,766
Total liabilities.	-	\$ 68,784
Net position:		
Held in trust for scholarships	60,106	
Total net position.	\$ 60,106	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
Additions:		
Interest.	\$	352
Gifts and contributions.		2,100
Total additions.		<u>2,452</u>
Deductions:		
Scholarships awarded		<u>6,449</u>
Change in net position		(3,997)
Net position at beginning of year.		<u>64,103</u>
Net position at end of year	\$	<u>60,106</u>

SEE ACCOMPANYING NOTES TO 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, 2018

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 46 non-certified, 72 certified employees and 9 administrative employees to provide services to approximately 1,090 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).

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

During the fiscal year, the District paid NOECA \$23,646 for services. Financial information can be obtained by contacting the Controller, 4918 Milan Road, Sandusky, Ohio 44870.

Bay Area Council of Governments

The Bay Area Council of Governments consists of school districts representing multiple counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca and Wood). This jointly governed organization was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through Bay Area are natural gas and insurance. The only cost to the districts is an administrative charge if they purchase something through the Council. The District paid \$41,044 to the Bay Area Council of Governments in 2018. The Bay Area Council of Governments consists of the superintendent of each school district. The Board of Directors consists of 1 elected representative from each county, and the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal officer). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the fiscal officer at 4918 Milan Road, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the fiscal officer at 4918 Milan Road, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

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

FIDUCIARY FUNDS

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

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, 2018

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.

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

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

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

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

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 15 and 16 for deferred outflows of resources related the District's net pension liability and net OPEB liability, respectively. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Notes 15 and 16 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2018 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 2018.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Board adopted appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund level of expenditures for the general fund.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
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, 2018; 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 investments" on the basic financial statements.

During fiscal year 2018, 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 2018 amounted to \$5,699, which includes \$3,762 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with a gift of stock to its private-purpose trust fund. No public funds were used to acquire the stock. At June 30, 2018, the common stock value was \$17,544. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

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

G. Inventory

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

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 acquisition 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>	<u>Governmental Activities 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. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans between governmental funds are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

J. Compensated Absences

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2018 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.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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.

M. 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.

N. 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, 2018

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

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

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

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

On the government-wide financial statements, issuance costs are recognized in the current period and are not amortized. Bond premiums and discounts are amortized over the term of the bonds using the straight-line method. Unamortized bond premiums are presented as an addition to the face amount of the bonds reported on the statement of net position. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statement of net position. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 12.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.

P. 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.

Q. Stabilization Arrangement

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

R. 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.

S. Pensions/Other Postemployment Benefits (OPEB)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

T. 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 2018.

U. Fair Market Value

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the District's postemployment benefit plan disclosures, as presented in Note 16 to the basic financial statements and added required supplementary information.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ (2,712,753)
Deferred outflows - payments subsequent to measurement date	27,109
Net OPEB liability	(3,899,879)
Restated net position at July 1, 2017	\$ (6,585,523)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 12,990
Vocational education enhancement	2,331
Title I	7,113

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

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.

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

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 fair 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.

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

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

A. Cash on Hand

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was \$1,253,129 and the bank balance of all District deposits was \$1,344,582. Of the bank balance, \$250,000 was covered by the FDIC and \$1,094,582 was collateralized by the Ohio Pooled Collateral System.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District's and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. Although 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.

C. Investments

As of June 30, 2018, the District had the following investments and maturities:

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>9 to 24 months</u>
Fair Value:			
Donated stock	\$ 17,544	\$ 17,544	\$ -
Donated money market	5,767	5,767	-
Negotiable CD's	<u>245,899</u>	<u>-</u>	<u>245,899</u>
 Total	 <u>\$ 269,210</u>	 <u>\$ 23,311</u>	 <u>\$ 245,899</u>

The weighted average maturity of investments is 1.72 years.

The District's investments in donated stock and money market are valued using quoted market prices in active markets (Level 1 inputs). The District's investments in negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2018:

<u>Measurement/ Investment type</u>	<u>Measurement</u>	
	<u>Value</u>	<u>% of Total</u>
Fair Value:		
Donated stock	\$ 17,544	6.52
Donated money market	5,767	2.14
Negotiable CD's	<u>245,899</u>	<u>91.34</u>
Total	<u>\$ 269,210</u>	<u>100.00</u>

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, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,253,129
Investments	269,210
Cash on hand	<u>3</u>
Total	<u>\$ 1,522,342</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,393,452
Private-purpose trust funds	60,106
Agency funds	<u>68,784</u>
Total	<u>\$ 1,522,342</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Huron and Erie Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$583,086 in the general fund, \$57,510 in the bond retirement fund and \$10,704 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2017 was \$507,940 in the general fund, \$53,802 in the bond retirement fund and \$9,333 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2018 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 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 135,648,710	96.50	\$ 136,452,570	96.38
Public utility personal	<u>4,922,350</u>	<u>3.50</u>	<u>5,131,700</u>	<u>3.62</u>
Total	<u>\$ 140,571,060</u>	<u>100.00</u>	<u>\$ 141,584,270</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$33.75		\$33.75	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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 2018 was \$2,102,714.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2018 consisted of property taxes, income taxes, accounts, 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	\$ 3,031,632
Income taxes	885,272
Accounts	48,781
Accrued interest	3,940
Intergovernmental	<u>107,935</u>
 Total	 <u>\$ 4,077,560</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 - INTERFUND BALANCES

Interfund balances at June 30, 2018, as reported on the fund statements, consist of the following individual short-term interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 2,372</u>

The primary purpose of the interfund balance is to cover costs in various funds where revenues were not received by June 30. The interfund balance will be repaid once the anticipated revenues are received. The interfund balance is expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance</u> <u>06/30/17</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/18</u>
Governmental activities:				
<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	23,030,223	-	-	23,030,223
Furniture and equipment	3,908,373	18,344	-	3,926,717
Vehicles	1,257,171	85,206	-	1,342,377
Total capital assets, being depreciated	<u>28,881,052</u>	<u>103,550</u>	<u>-</u>	<u>28,984,602</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(608,185)	(14,745)	-	(622,930)
Buildings and improvements	(9,845,922)	(527,926)	-	(10,373,848)
Furniture and equipment	(3,619,143)	(34,133)	-	(3,653,276)
Vehicles	(861,347)	(72,244)	-	(933,591)
Total accumulated depreciation	<u>(14,934,597)</u>	<u>(649,048)</u>	<u>-</u>	<u>(15,583,645)</u>
Governmental activities capital assets, net	<u>\$ 14,239,323</u>	<u>\$ (545,498)</u>	<u>\$ -</u>	<u>\$ 13,693,825</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 373,694
Special	35,317
Vocational	28,692
<u>Support services:</u>	
Instructional staff	272
Administration	22,751
Business	270
Operations and maintenance	39,223
Pupil transportation	72,244
Extracurricular activities	31,751
Food service operations	<u>44,834</u>
Total depreciation expense	<u>\$ 649,048</u>

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2018 and prior fiscal years, the District entered into capital leases 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)

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 \$413,808. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2018, was \$130,482, leaving a current book value of \$283,326. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2018 totaled \$82,820 in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2018.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 71,056
2020	53,728
2021	35,436
2022	<u>18,060</u>
Total minimum lease payments	178,280
Less: amount representing interest	<u>(9,916)</u>
Total	<u>\$ 168,364</u>

NOTE 11 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

During fiscal year 2016, the District entered into a lease-purchase agreement with Key Government Finance, Inc. to complete energy conservation upgrades in the District. This lease meets the criteria of a lease-purchase as defined by GAAP, which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. At June 30, 2017, capital assets acquired by lease purchase have been capitalized under building and improvements in the amount of \$613,608. Lease-purchase payments have been reflected as debt service expenditures from the general fund. Principal and interest payments totaled \$55,279 and \$16,231, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2018.

<u>Fiscal Year Ending June 30</u>	<u>Total</u>
2019	\$ 71,509
2020	71,510
2021	71,509
2022	71,509
2023	71,510
2024-2025	<u>143,019</u>
Total minimum lease payments	500,566
Less: amount representing interest	<u>(57,643)</u>
Present value of minimum lease payments	<u>\$ 442,923</u>

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2018, the following changes occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A.

	Restated Balance <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/18</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
Series 2010, current interest bonds	\$ 1,585,000	\$ -	\$ (205,000)	\$ 1,380,000	\$ 215,000
Net pension liability	19,204,427	-	(4,953,742)	14,250,685	-
Net OPEB liability	3,899,879	91,567	(706,255)	3,285,191	-
Compensated absences	606,504	47,374	(30,818)	623,060	59,907
Lease-purchase agreement obligation	498,202	-	(55,279)	442,923	57,146
Capital lease obligation	<u>165,978</u>	<u>85,206</u>	<u>(82,820)</u>	<u>168,364</u>	<u>66,145</u>
Total	<u>\$ 25,959,990</u>	<u>\$ 224,147</u>	<u>\$ (6,033,914)</u>	20,150,223	<u>\$ 398,198</u>
Add: unamortized premium				<u>84,532</u>	
Total on statement of net position				<u>\$ 20,234,755</u>	

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, 2018, is \$1,380,000.

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 matured on December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date.

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.

Net pension liability – The District’s net pension liability is described in Note 15. The District pays obligations related to employee compensation from the fund benefitting from their service.

Net OPEB liability – The District’s net OPEB liability is described in Note 16. The District pays obligations related to employee compensation from the fund benefitting from their service.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

Lease-purchase obligation - See Note 11 for details.

Capital lease obligation - See Note 10 for details.

- B.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2018, are as follows:

Fiscal Year Ending June 30	General Obligation Current Interest Bonds		
	Principal	Interest	Total
2019	\$ 215,000	\$ 45,803	\$ 260,803
2020	220,000	39,413	259,413
2021	225,000	32,456	257,456
2022	230,000	24,200	254,200
2023	240,000	14,800	254,800
2024	250,000	5,000	255,000
Total	\$ 1,380,000	\$ 161,672	\$ 1,541,672

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, 2018, are a voted debt margin of \$12,076,809 (including available funds of \$714,225) and an unvoted debt margin of \$141,584.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences and Retirement Incentive

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - OTHER EMPLOYEE BENEFITS – (Continued)

Non-Certified Employees

Accumulated unused sick 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 sick 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.

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 14 - 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 2018, the District has contracted with Ohio Casualty to provide general liability, fleet, building and contents coverage.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - RISK MANAGEMENT – (Continued)

The District had the following coverages in effect for fiscal year 2018:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 3,000,000	\$ -
Aggregate	5,000,000	-
Fleet:		
Comprehensive	3,000,000	1,000
Collision	3,000,000	1,000
Building and contents	53,683,508	1,000

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 2017.

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

For fiscal year 2018 the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

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

NOTE 15 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to SERS was \$181,741 for fiscal year 2018. Of this amount, \$7,339 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$730,847 for fiscal year 2018. Of this amount, \$126,092 is reported as pension and postemployment benefits payable.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04820330%	0.04683292%	
Proportion of the net pension liability current measurement date	<u>0.05525180%</u>	<u>0.04609309%</u>	
Change in proportionate share	<u>0.00704850%</u>	<u>-0.00073983%</u>	
Proportionate share of the net pension liability	\$ 3,301,173	\$ 10,949,512	\$ 14,250,685
Pension expense	\$ 56,782	\$ (4,302,495)	\$ (4,245,713)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 142,071	\$ 422,818	\$ 564,889
Changes of assumptions	170,706	2,394,778	2,565,484
Difference between District contributions and proportionate share of contributions/ change in proportionate share	404,366	37,094	441,460
District contributions subsequent to the measurement date	<u>181,741</u>	<u>730,847</u>	<u>912,588</u>
Total deferred outflows of resources	<u>\$ 898,884</u>	<u>\$ 3,585,537</u>	<u>\$ 4,484,421</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 88,249	\$ 88,249
Net difference between projected and actual earnings on pension plan investments	15,671	361,349	377,020
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>-</u>	<u>263,339</u>	<u>263,339</u>
Total deferred inflows of resources	<u>\$ 15,671</u>	<u>\$ 712,937</u>	<u>\$ 728,608</u>

\$912,588 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 307,997	\$ 418,130	\$ 726,127
2020	339,711	909,683	1,249,394
2021	130,721	667,289	798,010
2022	<u>(76,957)</u>	<u>146,651</u>	<u>69,694</u>
Total	<u>\$ 701,472</u>	<u>\$ 2,141,753</u>	<u>\$ 2,843,225</u>

Actuarial Assumptions - SERS

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five-year period ended June 30, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected

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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 4,581,170	\$ 3,301,173	\$ 2,228,914

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
 Total	 <u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
District's proportionate share of the net pension liability	\$ 15,695,753	\$ 10,949,512	\$ 6,951,516

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NOTE 16 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made 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 if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$24,494.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$31,225 for fiscal year 2018. Of this amount, \$24,766 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.04894949%	0.04683292%	
Proportion of the net OPEB liability current measurement date	<u>0.05540070%</u>	<u>0.04609309%</u>	
Change in proportionate share	<u>0.00645121%</u>	<u>-0.00073983%</u>	
Proportionate share of the net OPEB liability	\$ 1,486,809	\$ 1,798,382	\$ 3,285,191
OPEB expense	\$ 135,254	\$ (554,421)	\$ (419,167)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 103,814	\$ 103,814
Difference between District contributions and proportionate share of contributions/ change in proportionate share	128,438	-	128,438
District contributions subsequent to the measurement date	<u>31,225</u>	<u>-</u>	<u>31,225</u>
Total deferred outflows of resources	<u>\$ 159,663</u>	<u>\$ 103,814</u>	<u>\$ 263,477</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 3,926	\$ 76,867	\$ 80,793
Changes of assumptions	141,090	144,866	285,956
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>-</u>	<u>33,915</u>	<u>33,915</u>
Total deferred inflows of resources	<u>\$ 145,016</u>	<u>\$ 255,648</u>	<u>\$ 400,664</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

\$31,225 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (5,566)	\$ (31,711)	\$ (37,277)
2020	(5,566)	(31,711)	(37,277)
2021	(4,466)	(31,711)	(36,177)
2022	(980)	(31,710)	(32,690)
2023	-	(12,494)	(12,494)
Thereafter	-	(12,497)	(12,497)
Total	\$ (16,578)	\$ (151,834)	\$ (168,412)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 1,795,511	\$ 1,486,809	\$ 1,242,238

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 1,206,434	\$ 1,486,809	\$ 1,857,890

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 16 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 2,414,299	\$ 1,798,382	\$ 1,311,607
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,249,439	\$ 1,798,382	\$ 2,520,856

NOTE 17 - 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);

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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).

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	\$ (77,410)
Net adjustment for revenue accruals	128,482
Net adjustment for expenditure accruals	117,320
Net adjustment for other sources/uses	(54,945)
Funds budgeted elsewhere	4,417
Adjustment for encumbrances	68,421
GAAP basis	\$ 186,285

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 18 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 18 - CONTINGENCIES – (Continued)

C. School Foundation

District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. The ODE’s final FTE adjustments did not have a material impact on the District’s financial statements.

NOTE 19 - 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.

During fiscal year 2001, the District issued \$3,265,000 in current interest general obligation bonds and \$96,000 in capital appreciation bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvement set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$1,544,736 at June 30, 2018.

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, 2017	\$ -
Current year set-aside requirement	193,927
Current year qualifying expenditures	(82,820)
Current year offsets	(90,725)
Prior year offset from bond proceeds	<u>(20,382)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

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

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 20 - 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 21 - 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	\$ 63,188
Nonmajor governmental funds	<u>23,849</u>
Total	<u>\$ 87,037</u>

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.05525180%	0.04820330%	0.04536490%	0.04310100%	0.04310100%
District's proportionate share of the net pension liability	\$ 3,301,173	\$ 3,528,037	\$ 2,588,565	\$ 2,181,317	\$ 2,563,078
District's covered payroll	\$ 1,626,064	\$ 1,534,379	\$ 1,365,721	\$ 1,252,446	\$ 1,296,091
District's proportionate share of the net pension liability as a percentage of its covered payroll	203.02%	229.93%	189.54%	174.16%	197.75%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04609309%	0.04683292%	0.04663892%	0.04738065%	0.04738065%
District's proportionate share of the net pension liability	\$ 10,949,512	\$ 15,676,390	\$ 12,889,633	\$ 11,524,614	\$ 13,728,045
District's covered payroll	\$ 5,063,943	\$ 4,976,264	\$ 4,865,993	\$ 4,840,992	\$ 5,065,400
District's proportionate share of the net pension liability as a percentage of its covered payroll	216.23%	315.02%	264.89%	238.06%	271.02%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 181,741	\$ 227,649	\$ 214,813	\$ 180,002
Contributions in relation to the contractually required contribution	<u>(181,741)</u>	<u>(227,649)</u>	<u>(214,813)</u>	<u>(180,002)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,346,230	\$ 1,626,064	\$ 1,534,379	\$ 1,365,721
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 173,589	\$ 179,379	\$ 173,011	\$ 161,474	\$ 172,449	\$ 116,179
<u>(173,589)</u>	<u>(179,379)</u>	<u>(173,011)</u>	<u>(161,474)</u>	<u>(172,449)</u>	<u>(116,179)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,252,446	\$ 1,296,091	\$ 1,286,327	\$ 1,284,598	\$ 1,273,626	\$ 1,180,681
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 730,847	\$ 708,952	\$ 696,677	\$ 681,239
Contributions in relation to the contractually required contribution	<u>(730,847)</u>	<u>(708,952)</u>	<u>(696,677)</u>	<u>(681,239)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,220,336	\$ 5,063,943	\$ 4,976,264	\$ 4,865,993
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
\$ 629,329	\$ 658,502	\$ 666,872	\$ 664,744	\$ 665,147	\$ 619,638
<u>(629,329)</u>	<u>(658,502)</u>	<u>(666,872)</u>	<u>(664,744)</u>	<u>(665,147)</u>	<u>(619,638)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,840,992	\$ 5,065,400	\$ 5,129,785	\$ 5,113,415	\$ 5,116,515	\$ 4,766,446
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.05540070%	0.04894949%
District's proportionate share of the net OPEB liability	\$ 1,486,809	\$ 1,395,242
District's covered payroll	\$ 1,626,064	\$ 1,534,379
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	91.44%	90.93%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.04609309%	0.04683292%
District's proportionate share of the net OPEB liability	\$ 1,798,382	\$ 2,504,637
District's covered payroll	\$ 5,063,943	\$ 4,976,264
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.51%	50.33%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 31,225	\$ 27,109	\$ 25,201	\$ 33,653
Contributions in relation to the contractually required contribution	<u>(31,225)</u>	<u>(27,109)</u>	<u>(25,201)</u>	<u>(33,653)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,346,230	\$ 1,626,064	\$ 1,534,379	\$ 1,365,721
Contributions as a percentage of covered payroll	2.32%	1.67%	1.64%	2.46%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 25,293	\$ 22,450	\$ 26,979	\$ 44,737	\$ 29,995	\$ 74,016
<u>(25,293)</u>	<u>(22,450)</u>	<u>(26,979)</u>	<u>(44,737)</u>	<u>(29,995)</u>	<u>(74,016)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,252,446	\$ 1,296,091	\$ 1,286,327	\$ 1,284,598	\$ 1,273,626	\$ 1,180,681
2.02%	1.73%	2.10%	3.48%	2.36%	6.27%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,220,336	\$ 5,063,943	\$ 4,976,264	\$ 4,865,993
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
\$ 48,418	\$ 50,654	\$ 51,298	\$ 51,134	\$ 51,165	\$ 47,664
(48,418)	(50,654)	(51,298)	(51,134)	(51,165)	(47,664)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 4,840,992	\$ 5,065,400	\$ 5,129,785	\$ 5,113,415	\$ 5,116,515	\$ 4,766,446
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
<u>Child Nutrition Cluster:</u>		
School Breakfast Program	10.553	\$68,100
National School Lunch Program:		
Cash Assistance	10.555	200,932
Non-Cash Assistance (Food Distribution)	10.555	35,806
Total National School Lunch Program		<u>236,738</u>
Total Child Nutrition Cluster		<u>304,838</u>
Team Nutrition Grants	10.574	4,319
Child Nutrition Discretionary Grants Limited Availability	10.579	<u>9,829</u>
Total U.S. Department of Agriculture		<u>318,986</u>
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster (IDEA):</u>		
Special Education - Grants to States	84.027	262,260
Title I Grants to Local Educational Agencies	84.010	171,866
Improving Teacher Quality State Grants	84.367	32,911
Student Support and Academic Enrichment Program	84.424	<u>10,000</u>
Total U.S. Department of Education		<u>477,037</u>
Total Expenditures of Federal Awards		<u><u>\$796,023</u></u>

The accompanying notes are an integral part of this schedule.

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Western Reserve Local School District (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

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OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Huron County, Ohio (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2018-001 to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and / or corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 20, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Western Reserve Local School District, Huron County, Ohio's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Western Reserve Local School District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Western Reserve Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Keith Faber
Auditor of State

Columbus, Ohio

March 20, 2019

**WESTERN RESERVE LOCAL SCHOOL DISTRICT
HURON COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS
--

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

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

FINDING NUMBER 2018-001

Significant Deficiency – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

General Fund accounts payable and special instruction expenditures were understated in the amount of \$54,893 and unassigned fund balance was overstated by \$54,893.

These errors were not identified and corrected prior to the District preparing its basic financial statements due to deficiencies in the District's internal controls over financial statement monitoring. The failure to adequately monitoring financial statements could allow for misstatements to occur and go undetected. Additional insignificant errors were also noted for the fiscal year ended June 30, 2018. The accompanying basic financial statements have been adjusted to reflect certain changes.

To help ensure the District's basic financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the basic financial statements, GAAP conversion work papers, and notes to the basic financial statements by the Treasurer, to help identify and correct errors and omissions.

Officials' Response:

The Treasurer's office will continue to monitor and more closely review the basic financial statements and GAAP conversion work papers, including the review of payments made in August and September, relative to the prior fiscal year.

3. FINDINGS FOR FEDERAL AWARDS

None.



CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Treasurer's office will continue to monitor and more closely review the basic financial statements and GAAP conversion work papers, including the review of payments made in August and September, relative to the prior fiscal year.	March 20, 2019	Brett Robson, Treasurer



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OHIO AUDITOR OF STATE
KEITH FABER



WESTERN RESERVE LOCAL SCHOOL DISTRICT

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2019**