



Mary Taylor, CPA  
Auditor of State



**WESTERN RESERVE LOCAL SCHOOL DISTRICT  
MAHONING COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountant's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	12
Reconciliation of Total Government Fund Balances to Net Assets of Governmental Activiites .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	16
Statement of Fund Net Assets – Proprietary Fund .....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	18
Statement of Cash Flows - Proprietary Fund.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20
Notes to the Basic Financial Statements .....	21
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	43

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

March 17, 2008

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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This discussion and analysis of Western Reserve Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2007 are as follows:

- In total, net assets increased by \$1,090,305.
- Revenues for governmental activities totaled \$7,372,571 in 2007. Of this total, 81.8 percent consisted of general revenues while program revenues accounted for the balance of 18.2 percent.
- Program expenses totaled \$6,282,266. Instructional expenses made up 52.4 percent of this total while support services accounted for 39.7 percent. Other expenses rounded out the remaining 7.9 percent.
- General revenues totaled \$6,029,954. Of this total, \$2,984,977 or 49.5 percent was derived from property taxes, \$2,950,709 or 48.9 percent from state entitlements and grants and \$94,268 or 1.6 percent was derived from interest and other miscellaneous revenues.
- The general fund balance was \$1,730,160 on a budget basis at fiscal year end, up from \$1,255,774 at June 30, 2006.

**Using this Annual Financial Report**

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

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially in 2007?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

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



**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

**Table 1**  
Net Assets  
Governmental Activities

	2007	2006	Change
<b>Assets</b>			
Current and Other Assets	\$5,374,225	\$4,525,420	\$848,805
Capital Assets	2,597,140	2,357,298	239,842
<i>Total Assets</i>	7,971,365	6,882,718	1,088,647
<b>Liabilities</b>			
Current Liabilities	3,717,635	3,700,620	17,015
Long-Term Liabilities			
Due within One Year	40,549	38,282	2,267
Due in More than One Year	532,800	553,740	(20,940)
<i>Total Liabilities</i>	4,290,984	4,292,642	(1,658)
<b>Net Assets</b>			
Invested in Capital Assets	2,597,140	2,357,298	239,842
Restricted	367,820	389,162	(21,342)
Unrestricted (Deficit)	715,421	(156,384)	871,805
<i>Total Net Assets</i>	\$3,680,381	\$2,590,076	\$1,090,305

Total assets increased by \$1,088,647. The majority of this increase can be attributed to an increase in capital assets and cash and cash equivalents resulting from an increase in property tax and tuition revenue collected during the fiscal year.

Total liabilities decreased by \$1,658. The overall decrease in liabilities was insignificant.

By comparing assets and liabilities, one can see the overall position of the School District has increased as evidenced by the increase in net assets of \$1,090,305. The increase in unrestricted net assets of \$871,805 was due primarily to the aforementioned increase in property tax and tuition collections.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$6,029,954 or 81.8 percent of the total revenue. The most significant portion of the general revenue consists of property taxes and State grants and entitlements. The remaining amount of revenue received was in the form of program revenues, which equated to \$1,342,617 or 18.2 percent of total revenue.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 2**  
Change in Net Assets  
Governmental Activities

	2007	2006	Change
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for Services and Sales	\$922,370	\$841,157	\$81,213
Operating Grants and Contributions	407,693	297,522	110,171
Capital Grants and Contributions	12,554	4,995	7,559
<i>Total Program Revenues</i>	<u>1,342,617</u>	<u>1,143,674</u>	<u>198,943</u>
<b>General Revenues</b>			
Property Taxes	2,984,977	2,747,174	237,803
Intergovernmental	2,950,709	3,042,087	(91,378)
Investment Earnings	60,877	25,656	35,221
Miscellaneous	33,391	10,638	22,753
<i>Total General Revenues</i>	<u>6,029,954</u>	<u>5,825,555</u>	<u>204,399</u>
<i>Total Revenues</i>	<u>7,372,571</u>	<u>6,969,229</u>	<u>403,342</u>
<b>Program Expenses</b>			
Current:			
Instruction:			
Regular	2,651,348	2,731,704	(80,356)
Special	533,645	567,087	(33,442)
Vocational	100,287	115,355	(15,068)
Adult/Continuing	4,433	5,700	(1,267)
Support Services:			
Pupils	266,907	284,267	(17,360)
Instructional Staff	316,010	301,574	14,436
Board of Education	17,942	34,879	(16,937)
Administration	620,114	601,649	18,465
Fiscal	276,252	290,264	(14,012)
Business	23,152	24,560	(1,408)
Operation and Maintenance of Plant	573,984	579,355	(5,371)
Pupil Transportation	385,747	556,740	(170,993)
Central	13,979	15,698	(1,719)
Operation of Non-Instructional Services	200	0	200
Operation of Food Services	221,357	233,069	(11,712)
Extracurricular Activities	276,909	320,624	(43,715)
<i>Total Program Expenses</i>	<u>6,282,266</u>	<u>6,662,525</u>	<u>(380,259)</u>
<i>Increase in Net Assets</i>	1,090,305	306,704	783,601
Net Assets Beginning of Year	2,590,076	2,283,372	306,704
<i>Net Assets End of Year</i>	<u>\$3,680,381</u>	<u>\$2,590,076</u>	<u>\$1,090,305</u>

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

**Governmental Activities**

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five fiscal years. The negotiated union contracts, effective through fiscal year 2008, include no pay increases for the first two years of the contract and a two percent increase in the third year. Based on the renewal of all expiring levies and a slight increase projected from the State in its next budget, the School District will be able to operate without a deficit in the general fund as projected in the School Districts five year forecast.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Approximately 52 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass 40 percent. The remaining amount of program expenses, 8 percent, is budgeted to pay for other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

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

**Table 3**  
Total and Net Cost of Program Services  
Governmental Activities

	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Program Expenses</b>				
Instruction:				
Regular	\$2,651,348	\$2,291,769	\$2,731,704	\$2,428,728
Special	533,645	307,055	567,087	398,534
Vocational	100,287	87,420	115,355	103,713
Adult/Continuing	4,433	(1,180)	5,700	12
Support Services:				
Pupils	266,907	223,786	284,267	258,465
Instructional Staff	316,010	267,626	301,574	212,686
Board of Education	17,942	15,538	34,879	31,360
Administration	620,114	487,532	601,649	515,679
Fiscal	276,252	239,877	290,264	261,452
Business	23,152	23,018	24,560	18,012
Operation and Maintenance of Plant	573,984	505,028	579,355	529,478
Pupil Transportation	385,747	329,169	556,740	502,052
Central	13,979	12,107	15,698	14,114
Operation of Non-Instructional Services	200	0	0	0
Operation of Food Services	221,357	189	233,069	36,926
Extracurricular Activities	276,909	150,715	320,624	207,640
<b>Total Expenses</b>	<b>\$6,282,266</b>	<b>\$4,939,649</b>	<b>\$6,662,525</b>	<b>\$5,518,851</b>

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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As one can see, the reliance upon property taxes and State grants and entitlements for governmental activities is crucial. Local tax monies support approximately 48 percent of total expenses while grants and entitlements support 47 percent. Program revenues support the remaining expenses.

**The School District's Funds**

Information regarding the School District's major fund begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, excluding transfers, of \$7,334,881 to offset expenditures of \$6,589,394. The net change in fund balance for the year was most significant in the general fund, which increased \$744,419. This was mostly due to an increase in property tax and tuition revenues collected during the fiscal year. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, grants and entitlements and property taxes are the School District's largest revenue sources. They account for approximately 45 and 40 percent of total governmental revenue, respectively, and are a great source of financial support for the students of the Western Reserve Local School District.

**General Fund Budgeting Highlights**

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

For the general fund, actual budget basis revenue matched final budget estimates, except for a variance of \$3,553 in the interest revenue line item. Original budget estimates of \$6,177,107 differed from the final budget estimates of 6,422,679. The actual and the final budgeted revenue amounts include revenue sources that were not anticipated at the beginning of the fiscal year, most notably, a full year of reimbursement from the State of Ohio for the phase-out of personal property taxes. At the time the original revenue budgets were certified, the amount of reimbursement due to the District was not entirely clear, and therefore was not budgeted at 100 percent, resulting in a large variance from the original budget to actual amounts. Other factors include additional unanticipated revenue from investment interest, contributions and donations, and insurance proceeds for permanent improvement losses.

Actual budget basis expenditures of \$5,929,508, excluding transfers, nearly matched final budget expenditures of \$5,929,488. Original budget basis expenditures of \$5,584,266 differed from final budget expenditures by \$345,222 due mostly to unexpected expenditures for a two-room addition added to the high school building, tuition costs for a greater number than anticipated of students attending community schools, an increase in costs due the county educational service center for the specialized services provided to an increased number of special needs students, and overall increases in utility costs, such as fuel, natural gas, and electric.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the School District had \$2,597,140 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

**Western Reserve Local School District**  
Mahoning County, Ohio

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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

	<u>2007</u>	<u>2006</u>
Land	\$28,935	\$28,935
Buildings and Improvements	1,530,651	1,336,878
Furniture and Equipment	421,550	378,204
Vehicles	314,218	293,995
Textbooks	301,786	319,286
<i>Total</i>	<u><u>\$2,597,140</u></u>	<u><u>\$2,357,298</u></u>

All capital assets, except land, are reported net of depreciation. As one can see, an increase in capital assets during the fiscal year occurred in all categories, except land and textbooks. For more information about the School District's capital assets, see Note 8 to the basic financial statements.

**Debt**

The School District had no outstanding general obligation debt at June 30, 2007. For more information on the School District's long-term obligations, see Note 15 to the basic financial statements.

**School District Outlook**

The Western Reserve Local School District has continued to maintain a high level of service to our students, parents and community. The Western Reserve Local School District has earned an "Excellent" rating on the State rating scale, for the sixth consecutive year, meeting 28 out of the 30 indicators for fiscal year 2007. The School District's average cost per pupil is \$7,506, compared to the State average of \$9,587. The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast and are doing everything in their power to make sure tax dollars are being used efficiently and effectively.

The financial future of the School District is not without its challenges. The School District is not anticipating any meaningful growth in State revenue, as evidenced by the current year budget which has no increase for our School District, and the outcome of the State's unconstitutional educational funding system. Therefore the School District relies heavily on its taxpayers to support its operations. It is becoming increasingly more difficult to secure the local support.

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

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Carol E. Brobst, Treasurer, Western Reserve Local School District, 13850 Akron-Canfield Road, Berlin Center, Ohio 44401. The Treasurer may also be contacted by phone at 330-547-4100, extension 23203, or by email at [wres\\_ceb@access-k12.org](mailto:wres_ceb@access-k12.org).

**Western Reserve Local School District**

Mahoning County, Ohio

*Statement of Net Assets*  
*June 30, 2007*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,281,419
Accrued Interest Receivable	3,679
Accounts Receivable	3,864
Intergovernmental Receivable	13,920
Property Taxes Receivable	3,006,172
Inventory Held for Resale	2,487
Materials and Supplies Inventory	62,684
Nondepreciable Capital Assets	28,935
Depreciable Capital Assets, Net	2,568,205
<i>Total Assets</i>	<u>7,971,365</u>
<b>Liabilities</b>	
Accounts Payable	25,649
Accrued Wages and Benefits Payable	660,664
Intergovernmental Payable	188,117
Matured Compensated Absences Payable	25,162
Deferred Revenue	2,818,043
Long-Term Liabilities:	
Due Within One Year	40,549
Due In More Than One Year	532,800
<i>Total Liabilities</i>	<u>4,290,984</u>
<b>Net Assets</b>	
Invested in Capital Assets	2,597,140
Restricted for:	
Capital Projects	148,639
Debt Service	9,312
Other Purposes	27,451
Set-asides	182,418
Unrestricted	715,421
<i>Total Net Assets</i>	<u><u>\$3,680,381</u></u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**  
Mahoning County, Ohio

*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2007*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$2,651,348	\$316,756	\$42,823	\$0	(\$2,291,769)
Special	533,645	45,567	181,023	0	(307,055)
Vocational	100,287	11,870	997	0	(87,420)
Adult/Continuing	4,433	0	5,613	0	1,180
Support Services:					
Pupils	266,907	31,649	11,472	0	(223,786)
Instructional Staff	316,010	32,380	16,004	0	(267,626)
Board of Education	17,942	2,218	186	0	(15,538)
Administration	620,114	111,687	15,729	5,166	(487,532)
Fiscal	276,252	33,555	2,820	0	(239,877)
Business	23,152	9	125	0	(23,018)
Operation and Maintenance of Plant	573,984	63,611	5,345	0	(505,028)
Pupil Transportation	385,747	34,799	14,391	7,388	(329,169)
Central	13,979	1,727	145	0	(12,107)
Operation of Non-Instructional Services	200	0	200	0	0
Operation of Food Services	221,357	140,709	80,459	0	(189)
Extracurricular Activities	276,909	95,833	30,361	0	(150,715)
<i>Total Governmental Activities</i>	<u>\$6,282,266</u>	<u>\$922,370</u>	<u>\$407,693</u>	<u>\$12,554</u>	<u>(4,939,649)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					2,783,104
					201,873
					2,950,709
					60,877
					33,391
					<u>6,029,954</u>
					1,090,305
					2,590,076
					<u>\$3,680,381</u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**  
Mahoning County, Ohio

*Balance Sheet*  
*Governmental Funds*  
*June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,844,510	\$227,910	\$2,072,420
Accrued Interest Receivable	3,679	0	3,679
Accounts Receivable	3,467	397	3,864
Intergovernmental Receivable	0	13,920	13,920
Property Taxes Receivable	2,796,343	209,829	3,006,172
Inventory Held for Resale	0	2,487	2,487
Materials and Supplies Inventory	62,524	160	62,684
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	182,418	0	182,418
<b>Total Assets</b>	<b>\$4,892,941</b>	<b>\$454,703</b>	<b>\$5,347,644</b>
<b>Liabilities</b>			
Accounts Payable	\$21,456	\$4,193	\$25,649
Accrued Wages and Benefits Payable	626,430	34,234	660,664
Intergovernmental Payable	173,931	14,186	188,117
Matured Compensated Absences Payable	25,162	0	25,162
Deferred Revenue	2,771,124	208,116	2,979,240
<b>Total Liabilities</b>	<b>3,618,103</b>	<b>260,729</b>	<b>3,878,832</b>
<b>Fund Balances</b>			
Reserved for Encumbrances	282,249	15,766	298,015
Reserved for Textbooks	107,717	0	107,717
Reserved for Bus Purchases	7,388	0	7,388
Reserved for Budget Stabilization	67,313	0	67,313
Unreserved:			
Undesignated, Reported in:			
General Fund	810,171	0	810,171
Special Revenue Funds	0	40,869	40,869
Debt Service Funds	0	9,312	9,312
Capital Projects Funds	0	128,027	128,027
<b>Total Fund Balances</b>	<b>1,274,838</b>	<b>193,974</b>	<b>1,468,812</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$4,892,941</b>	<b>\$454,703</b>	<b>\$5,347,644</b>

See accompanying notes to the basic financial statements



**Western Reserve Local School District**

Mahoning County, Ohio

*Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
June 30, 2007*

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<b>Total Governmental Fund Balances</b>	<b>\$1,468,812</b>
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,597,140
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.	161,197
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	26,581
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences	(563,349)
Early Retirement Incentive	<u>(10,000)</u>
Total	<u>(573,349)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$3,680,381</u></u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**  
Mahoning County, Ohio

*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$2,705,230	\$195,902	\$2,901,132
Tuition and Fees	648,959	0	648,959
Interest	60,803	74	60,877
Charges for Services	0	140,709	140,709
Extracurricular Activities	2,866	129,411	132,277
Rentals	425	0	425
Contributions and Donations	54,800	40,093	94,893
Intergovernmental	2,925,507	350,556	3,276,063
Miscellaneous	10,049	23,342	33,391
<i>Total Revenues</i>	<u>6,408,639</u>	<u>880,087</u>	<u>7,288,726</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	2,729,762	36,970	2,766,732
Special	390,063	174,837	564,900
Vocational	100,877	4,485	105,362
Adult/Continuing	0	4,700	4,700
Support Services:			
Pupils	270,447	10,744	281,191
Instructional Staff	276,156	26,478	302,634
Board of Education	19,028	0	19,028
Administration	585,346	64,510	649,856
Fiscal	289,348	4,664	294,012
Business	78	23,696	23,774
Operation and Maintenance of Plant	543,632	15,201	558,833
Pupil Transportation	297,672	71,651	369,323
Central	14,820	0	14,820
Operation of Non-Instructional Services	0	200	200
Operation of Food Services	0	216,995	216,995
Extracurricular Activities	97,498	169,145	266,643
Capital Outlay	64,087	86,304	150,391
<i>Total Expenditures</i>	<u>5,678,814</u>	<u>910,580</u>	<u>6,589,394</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>729,825</u>	<u>(30,493)</u>	<u>699,332</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Capital Assets	46,155	0	46,155
Transfers In	0	31,561	31,561
Transfers Out	(31,561)	0	(31,561)
<i>Total Other Financing Sources (Uses)</i>	<u>14,594</u>	<u>31,561</u>	<u>46,155</u>
<i>Net Change in Fund Balances</i>	744,419	1,068	745,487
<i>Fund Balances Beginning of Year</i>	530,419	192,906	723,325
<i>Fund Balances End of Year</i>	<u>\$1,274,838</u>	<u>\$193,974</u>	<u>\$1,468,812</u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**

Mahoning County, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

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**Net Change in Fund Balances - Total Governmental Funds** **\$745,487**

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	515,793
Current Year Depreciation	<u>(214,551)</u>

Total 301,242

The net effect of various transactions involving capital assets (i.e.; disposals and sales) is a reduction in net assets.

Assets Disposed	(134,656)
Accumulated Depreciation on Disposals	<u>73,256</u>

Total (61,400)

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

These revenues were attributed to property taxes. 83,845

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

Compensated Absences	28,673
Early Retirement Incentive	<u>(10,000)</u>

Total 18,673

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

2,458

*Change in Net Assets of Governmental Activities*

\$1,090,305

See accompanying notes to the basic financial statements

**Western Reserve Local School District**  
Mahoning County, Ohio

*Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$2,576,808	\$2,680,011	\$2,680,011	\$0
Tuition and Fees	623,969	648,959	648,959	0
Interest	55,033	57,237	60,790	3,553
Extracurricular Activities	2,756	2,866	2,866	0
Rentals	409	425	425	0
Contributions and Donations	52,690	54,800	54,800	0
Intergovernmental	2,812,982	2,925,644	2,925,644	0
Miscellaneous	6,305	6,582	6,582	0
<i>Total Revenues</i>	<u>6,130,952</u>	<u>6,376,524</u>	<u>6,380,077</u>	<u>3,553</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,552,321	2,707,680	2,707,680	0
Special	381,381	405,017	405,017	0
Vocational	97,743	103,692	103,692	0
Support Services:				
Pupils	253,253	268,553	268,553	0
Instructional Staff	272,363	288,926	288,926	0
Board of Education	27,079	28,727	28,727	0
Administration	558,085	592,046	592,046	0
Fiscal	249,398	264,579	264,599	(20)
Business	74	78	78	0
Operation and Maintenance of Plant	465,515	493,439	493,439	0
Pupil Transportation	309,712	328,557	328,557	0
Central	13,970	14,820	14,820	0
Extracurricular Activities	122,426	135,327	135,327	0
Capital Outlay	280,946	298,047	298,047	0
<i>Total Expenditures</i>	<u>5,584,266</u>	<u>5,929,488</u>	<u>5,929,508</u>	<u>(20)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>546,686</u>	<u>447,036</u>	<u>450,569</u>	<u>3,533</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	46,155	46,155	46,155	0
Transfers Out	(31,561)	(31,561)	(31,561)	0
<i>Total Other Financing Sources (Uses)</i>	<u>14,594</u>	<u>14,594</u>	<u>14,594</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	561,280	461,630	465,163	3,533
<i>Fund Balance Beginning of Year</i>	1,255,774	1,255,774	1,255,774	0
Prior Year Encumbrances Appropriated	9,223	9,223	9,223	0
<i>Fund Balance End of Year</i>	<u>\$1,826,277</u>	<u>\$1,726,627</u>	<u>\$1,730,160</u>	<u>\$3,533</u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**

Mahoning County, Ohio

*Statement of Fund Net Assets*

*Proprietary Fund*

*June 30, 2007*

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	<u>Internal Service</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$26,581
<b>Liabilities</b>	
	<u>0</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$26,581</u></u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**

Mahoning County, Ohio

*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2007*

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	<u>Internal Service</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$6,215</u>
<b>Operating Expenses</b>	
Purchased Services	899
Claims	2,858
<i>Total Operating Expenses</i>	<u>3,757</u>
<i>Change in Net Assets</i>	2,458
<i>Net Assets Beginning of Year</i>	<u>24,123</u>
<i>Net Assets End of Year</i>	<u><u>\$26,581</u></u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**

Mahoning County, Ohio

*Statement of Cash Flows*

*Proprietary Fund*

*For the Fiscal Year Ended June 30, 2007*

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	<u>Internal Service</u>
<b><i>Increase in Cash and Cash Equivalents</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$6,215
Cash Payments for Goods and Services	(899)
Cash Payments for Claims	<u>(3,126)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	2,190
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>24,391</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$26,581</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$2,458
Adjustments:	
Decrease in Claims Payable	<u>(268)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$2,190</u></u>

See accompanying notes to the basic financial statements

**Western Reserve Local School District**

Mahoning County, Ohio

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2007*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$19,715</u>
<b>Liabilities</b>	
Due to Students	\$18,256
Undistributed Monies	1,459
<i>Total Liabilities</i>	<u>\$19,715</u>

See accompanying notes to the basic financial statements



**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 1 - Description of the School District and Reporting Entity**

Western Reserve Local School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government. The School District is located in Berlin Center, Ohio, Mahoning County. The School District provides educational services as mandated by state and/or federal agencies. The Board of Education controls the School District's three instructional/support facilities staffed by 33 classified employees, 62 certified employees and 4 administrators who provide services to approximately 819 students and other community members.

***Reporting Entity***

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

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

The School District participates in two jointly governed organizations and three public entity risk pools. These organizations are the Mahoning County Career and Technical Center, Area Cooperative Computerized Educational Service System Council of Governments, Mahoning County Schools Employee Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Ohio School Plan. These organizations are presented in Notes 9 and 16 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**A. Basis of Presentation**

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

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

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

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

**B. Fund Accounting**

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

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

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

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

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

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

**C. Measurement Focus**

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

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

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

**D. Basis of Accounting**

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgetary Data**

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

## **Western Reserve Local School District**

Mahoning County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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

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

### ***F. Cash and Cash Equivalents***

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. During fiscal year 2007, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$60,803, which includes \$400 assigned from other School District funds.

### ***G. Inventory***

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

### ***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include unspent resources restricted for the purchase of buses and amounts required by State statute to be set-aside for the purchase of textbooks and to create a reserve for budget stabilization. See Note 17 for additional information regarding set asides.

### ***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**Western Reserve Local School District**

Mahoning County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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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>Estimated Lives</u>
Buildings and Improvements	20 - 100 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 20 years
Textbooks	5 years

***J. Compensated Absences***

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

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

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

***K. Accrued Liabilities and Long-term Obligations***

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

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

***L. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$367,820, none of which is restricted by enabling legislation. Net assets restricted for other

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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purposes include resources restricted for the operation of instructional services, support services and extracurricular activities.

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

***M. Fund Balance Reserves***

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

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

***N. Operating Revenues and Expenses***

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

***O. Interfund Activity***

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

***P. 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 2007.

***Q. Estimates***

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 3 – Fund Deficits**

Fund balances at June 30, 2007 included the following individual fund deficits:

Nonmajor Governmental Funds:	Deficit
Food Service	\$13,748
Management Information Systems	2,541
IDEA Part B Grant	1,051
Title I	458
Improving Teacher Quality	233

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

**Note 4 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$744,419
Net Adjustment for Revenue Accruals	(28,562)
Net Adjustment for Expenditure Accruals	46,074
Adjustment for Encumbrances	(296,768)
Budget Basis	\$465,163



**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 5 - Deposits and Investments**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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

**Deposits**

At June 30, 2007, the carrying value amount of all the District's deposits was \$2,301,134. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", as of June 30, 2007, \$2,283,373 of the District's bank balance of \$2,383,373 was exposed to custodial risk as described below, while \$100,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

**Custodial Credit Risk** Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. Except for the \$100,000 FDIC coverage, all deposits (inclusive of the SWEEP account) are uninsured but collateralized with eligible securities, in the amounts equal to at least 105 percent of the bank balance of the deposits. Such collateral, as permitted by the Ohio Revised Code, is pledged as a pool of collateral against all public monies and held by a third-party custodian, the Federal Reserve Bank of Cleveland, but not in the District's name.

**Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$2,301,134
Investments	0
Total	<u>\$2,301,134</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities (Includes Internal Service)	\$2,281,419
Agency funds	19,715
Total	<u>\$2,301,134</u>

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Mahoning County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Due to the timing of the tax bills sent by the County, there is no money available as an advance to the School District at June 30, 2007 and June 30, 2006.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$84,039,850	92.33 %	\$85,286,170	92.93 %
Public Utility Personal	4,438,020	4.88	4,760,420	5.19
Tangible Personal Property	2,542,097	2.79	1,721,160	1.88
<b>Total</b>	<b>\$91,019,967</b>	<b>100.00 %</b>	<b>\$91,767,750</b>	<b>100.00 %</b>
 Tax rate per \$1,000 of assessed valuation	 \$49.60		 \$49.25	

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 7 - Receivables**

Receivables at June 30, 2007 consisted of property taxes, accounts (billings for user charged services and student fees), intergovernmental grants, and interest. All receivables are considered collectible in full and will be received within one year.

At June 30, 2007, the School District had an intergovernmental receivable of \$13,920 in the food service special revenue fund for federal lunchroom reimbursements.

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>6/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/07</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$28,935	\$0	\$0	\$28,935
Capital assets being depreciated:				
Buildings and improvements	4,927,466	315,828	0	5,243,294
Furniture, fixtures and equipment	1,127,260	137,963	(84,868)	1,180,355
Vehicles	541,511	62,002	(49,788)	553,725
Textbooks	490,000	0	0	490,000
Total capital assets being depreciated	<u>7,086,237</u>	<u>515,793</u>	<u>(134,656)</u>	<u>7,467,374</u>
Accumulated depreciation:				
Buildings and improvements	(3,590,588)	(122,055)	0	(3,712,643)
Furniture, fixtures and equipment	(749,056)	(45,712)	35,963	(758,805)
Vehicles	(247,516)	(29,284)	37,293	(239,507)
Textbooks	(170,714)	(17,500)	0	(188,214)
Total accumulated depreciation	<u>(4,757,874)</u>	<u>(214,551) *</u>	<u>73,256</u>	<u>(4,899,169)</u>
Capital assets being depreciated, net	<u>2,328,363</u>	<u>301,242</u>	<u>(61,400)</u>	<u>2,568,205</u>
Governmental activities capital assets, net	<u>\$2,357,298</u>	<u>\$301,242</u>	<u>(\$61,400)</u>	<u>\$2,597,140</u>

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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\* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$68,062
Special	81
Support Services:	
Pupil	661
Instructional Staff	27,102
Administration	2,391
Fiscal	459
Business	679
Operation and Maintenance of Plant	41,922
Pupil Transportation	34,190
Operation of Food Services	15,165
Extracurricular Activities	23,839
	<hr/>
Total Depreciation Expense	\$214,551
	<hr/>

**Note 9 - Jointly Governed Organizations**

**A. Mahoning County Career and Technical Center**

The Mahoning County Career and Technical Center is a political subdivision of the State of Ohio operated under the direction of a Board consisting of the five members of the Mahoning County Educational Service Center Governing Board, representing the eleven local school districts, and one representative from each of the two city school districts. The students of each participating school district may attend classes offered at the vocational facility. During fiscal year 2007, no monies were received from the School District. To obtain financial information write to the Treasurer at the Mahoning County Career and Technical Center, 7300 North Palmyra Road, Canfield, Ohio 44406.

**B. Area Cooperative Computerized Educational Service System Council of Governments**

The Area Cooperative Computerized Educational Service System Council of Governments (COG) is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports COG based upon a per pupil charge. Western Reserve Local School District paid \$25,539 to COG during fiscal year 2007.

COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of COG including budgeting, appropriating, contracting and designating management. All of COG revenues are generated from charges for services and State funding.

Financial information can be obtained by contacting the Treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Suite 115, Youngstown, Ohio 44512-7019.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 10 - Risk Management**

**A. Workers' Compensation**

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

**B. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District joined together with other School District in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool to obtain liability coverage. Each individual school district enters into an agreement with the OSP and its premium is based on the types of coverage and limits of coverage, and deductibles that it selects. During fiscal year 2007, the School District contracted with the Ohio School Plan for various types of insurance as follows:

<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Building and Contents-replacement cost	\$16,281,888	\$1,000
Boilers, Machinery/Equipment Breakdown	250,000	1,000
Money and Securities	10,000	1,000
Automobile Liability	3,000,000	1,000
Uninsured Motorists	1,000,000	1,000
General Liability/Violence		
Per occurrence	1,000,000	0
Total per year	3,000,000	0
Declaratory Equitable Injunctive Relief	25,000	2,500

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**C. Employee Medical Benefits**

The School District has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, prescription drug, and dental benefits. The Mahoning County Insurance Consortium is a shared risk pool comprised of thirteen Mahoning County school districts. Rates are set through an annual calculation process. The Western Reserve Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/surgical premiums of \$792.53 for family coverage and \$320.30 for single coverage per employee per month. The School District pays \$65.65 for family dental coverage or \$28.62 for single dental coverage and \$251.77 for family and \$110.48 for single prescription drug coverage per month.

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

The claims liability of \$0 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2006 and 2007 were:

	Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2006	\$163	\$3,308	\$3,203	\$268
2007	268	2,858	3,126	0

**Note 11 - Pension Plans**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$81,421, \$81,096, and \$68,748, respectively; 53.1 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal year 2006 and 2005.

**B - State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.



**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$370,981, \$374,385, and \$337,900, respectively; 81.5 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$6,818 made by the District and \$10,136 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 12 - Postemployment Benefits**

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

All STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$28,537 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$34,219 to fund health care benefits, including the surcharge.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,942 participants currently receiving health care benefits.

**Note 13 - Employee Benefits**

***A. Life Insurance***

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

***B. Compensated Absences***

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

***C. Retirement Incentive***

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

**Note 14 - Interfund Transfers**

The general fund made transfers to the food service and educational management information systems special revenue funds in the amount of \$18,673 and \$12,888, respectively. The transfer made to the food service fund was to help cover health care expenses in the fund, and the transfer to the educational management information system fund was made to help pay salaries and fringe benefits.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

**Note 15 - Long-term Obligations**

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts due in One Year
<b>Governmental-Type Activities</b>					
Compensated Absences	\$592,022	\$9,609	\$38,282	\$563,349	\$30,549
Early Retirement Incentive	0	10,000	0	10,000	10,000
<i>Total Governmental Long-Term Obligations</i>	<u>\$592,022</u>	<u>\$19,609</u>	<u>\$38,282</u>	<u>\$573,349</u>	<u>\$40,549</u>

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

The School District's overall legal debt margin was \$8,268,410 with an unvoted debt margin of \$91,768 at June 30, 2007.

**Note 16 - Public Entity Risk Pools**

**A. Shared Risk Pool**

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

**B. Insurance Purchasing Pools**

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

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

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**Note 17 - Set-Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, only the unspent portion of certain workers' compensation refunds continue to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2006	\$78,194	\$0	\$67,313
Current Year Set-Aside Requirement	120,135	120,135	0
Qualifying Disbursements	(90,612)	(245,091)	0
Total	\$107,717	(\$124,956)	\$67,313
Set-Aside Balance Carried Forward to			
Future Fiscal Years	\$107,717	\$0	\$67,313
Cash balance as of June 30, 2007	\$107,717	\$0	\$67,313

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is therefore not presented as being carried forward to future years.

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

A schedule of restricted assets as of June 30, 2007 is as follows:

Amount Set-Aside for Textbooks	\$107,717
Amount Set-Aside for Budget Stabilization	67,313
Amount Set-Aside for Bus Purchases	7,388
Total	\$182,418

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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**Note 18 - Contingencies**

**A. Grants**

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

The School District is not party to legal proceedings as of June 30, 2007.

**Note 19 – Operating Lease**

The School District entered into a 60 month photocopy machines lease and maintenance agreements with American Business Center, Inc., for \$1,370 a month, commencing on May 3, 2004 and concluding on May 2, 2009. The following is a schedule of the future minimum lease payments:

Fiscal Year Ending June 30,	Amount
2008	\$16,440
2009	13,700
Total - Present Value of Minimum Lease Payments	<u>\$30,140</u>

**Note 20 – New Accounting Standards**

In April of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." This Statement establishes uniform financial reporting standards for Other Postemployment Benefit (OPEB) plans and supersedes guidance included in Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans." The standards in Statement No. 43 apply to OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or third parties that administer them. Statement No. 43 will not be effective for the District until fiscal year 2008 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

During August of 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions", which addresses how state and local governments should account for and report their costs and obligations related to postemployment health care and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 will not be effective for the District until fiscal year 2009 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

**Western Reserve Local School District**  
Mahoning County, Ohio

*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2007*

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In September of 2006, the GASB issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." This statement establishes accounting standards on whether a transaction should be regarded as a sale or as collateralized borrowing resulting in a liability. Statement No. 48 will not be effective for the District until fiscal year 2008 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

In November 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This Statement is to establish accounting and financial reporting standards for pollution remediation obligations. Statement No. 49 will not be effective for the District until fiscal year 2009 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

In May of 2007, the GASB issued Statement No. 50, "Pension Disclosures." This Statement amends the applicable note disclosure and required supplementary information (RSI) of GASB Statement No. 25 and GASB Statement No. 27 to conform to the requirements of GASB Statement No. 43 and GASB Statement No. 45. This Statement is intended to improve the transparency and usefulness of financial reporting by pension plans and employers by amending Statement No. 25 and Statement No. 27 to conform to the applicable note disclosure and RSI modifications adopted in the OPEB Statements. Statement No. 50 will not be effective for the District until fiscal year 2008 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.

In June of 2007, the GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This Statement requires that all intangible assets, which include easements, water rights, timber rights, patents, trademarks, and computer software, be classified as capital assets. Statement No. 51 will not be effective for the District until fiscal year 2010 and, as such, the District has not determined the impact, if any, that this statement will have on its financial statements.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Reserve Local School District, Mahoning County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

Western Reserve Local School District  
Mahoning County  
Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Required by *Government Auditing Standards*

**Compliance and Other Matters**

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

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

March 17, 2008





Mary Taylor, CPA  
Auditor of State

WESTERN RESERVE LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 29, 2008