

Dave Yost • Auditor of State

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2010**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Solon City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2010, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Solon City School District, Cuyahoga County, Ohio, as of June 30, 2010, 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 February 2, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

February 2, 2011

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of Solon City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets decreased \$2,071,735. Net assets of governmental activities decreased \$2,045,483, which represents a 6.62% decrease from 2009. Net assets of business-type activities decreased \$26,252 or 12.19% from 2009.
- General revenues for governmental activities, accounted for \$66,895,670 in revenue or 93.50% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,652,293 or 6.50% of total governmental activities revenues of \$71,547,963.
- The District had \$73,571,446 in expenses related to governmental activities; only \$4,652,293 of these expenses was offset by program specific charges for services or grants and contributions. General revenues, supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$66,895,670 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and permanent improvement fund. The general fund had \$62,240,058 in revenues and \$64,859,631 in expenditures and other financing uses. The general fund's fund balance decreased \$2,619,573 from \$9,045,404 to \$6,425,831.
- The debt service fund had \$7,771,278 in revenues and other financing sources and \$7,752,003 in expenditures and other financing uses. The debt service fund's fund balance increased \$19,275 from \$2,050,858 to \$2,070,133.
- The permanent improvement fund had \$2,115,154 in revenues and \$1,719,535 in expenditures. The permanent improvement fund's fund balance increased \$395,619 from \$8,525,298 to \$8,920,917.
- The District's nonmajor enterprise funds are the food service fund, uniform school supplies fund and adult education fund. The food service fund had \$1,758,193 in revenues and transfers in and \$1,757,244 in expenses. The food services fund net assets increased \$949 from \$187,948 to \$188,897.
- The District's other nonmajor enterprise fund is the uniform school supplies fund. The uniform school supplies fund had \$78,659 in revenues and \$109,386 in expenses. The uniform school supplies fund net assets decreased \$30,727 from \$41,760 to \$11,033.
- The District's other nonmajor enterprise fund is the adult education fund. The adult education fund had \$165,564 in revenues and transfers in and \$162,038 in expenses. The deficit net assets in the adult education fund improved from \$(14,300) at June 30, 2009 to \$(10,774) at June 30, 2010.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of net assets and the statement of activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education programs, uniform school supplies and food service operations are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* 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 District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-61 of this report.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

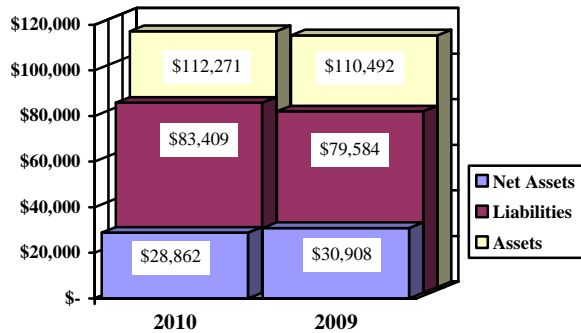
The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2010 and 2009.

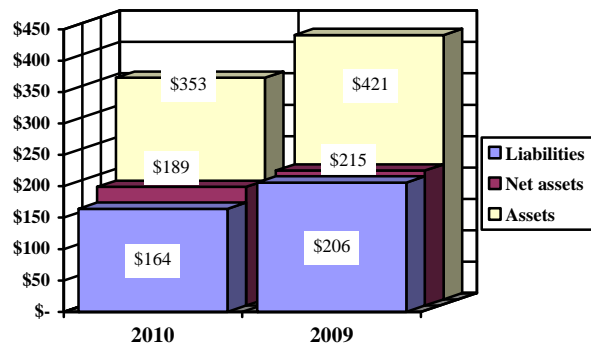
	Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current assets	\$77,059,382	\$73,497,815	\$ 98,034	\$ 143,636	\$77,157,416	\$73,641,451
Capital assets	35,211,888	36,993,903	255,492	277,730	35,467,380	37,271,633
Total assets	<u>112,271,270</u>	<u>110,491,718</u>	<u>353,526</u>	<u>421,366</u>	<u>112,624,796</u>	<u>110,913,084</u>
Liabilities						
Current liabilities	53,379,276	47,803,300	56,288	104,525	53,435,564	47,907,825
Long-term liabilities	<u>30,029,826</u>	<u>31,780,767</u>	<u>108,082</u>	<u>101,433</u>	<u>30,137,908</u>	<u>31,882,200</u>
Total liabilities	<u>83,409,102</u>	<u>79,584,067</u>	<u>164,370</u>	<u>205,958</u>	<u>83,573,472</u>	<u>79,790,025</u>
Net Assets						
Invested in capital assets, net of debt	14,959,401	14,446,499	255,492	277,730	15,214,893	14,724,229
Restricted	13,220,326	12,348,115	-	-	13,220,326	12,348,115
Unrestricted (deficit)	<u>682,441</u>	<u>4,113,037</u>	<u>(66,336)</u>	<u>(62,322)</u>	<u>616,105</u>	<u>4,050,715</u>
Total net assets (deficit)	<u>\$28,862,168</u>	<u>\$30,907,651</u>	<u>\$ 189,156</u>	<u>\$ 215,408</u>	<u>\$29,051,324</u>	<u>\$31,123,059</u>

Total net assets of the District decreased by \$2,071,735, governmental activities net assets decreased \$2,045,483 and business-type activities net assets decreased \$26,252. Total assets of the District's governmental activities increased \$1,779,552 from June 30, 2009. Current assets increased approximately \$3.5 million due to an increase in taxes receivable due to the passage of the 6.9 mill continuing operating levy in the May 2010 election (collections begin January 1, 2011). The increase in taxes receivable was equally offset by an increase in unearned revenue (a liability) which explains a majority of the increase in liabilities. The recording of taxes receivable and the related unearned revenue (a liability) had no effect on net assets.

Governmental – Net Assets (Amounts in 000's)



Business-Type – Net Assets (Amounts in 000's)



**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The table below shows the changes in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 1,863,225	\$ 1,857,633	\$ 1,717,224	\$ 1,704,143	\$ 3,580,449	\$ 3,561,776
Operating grants and contributions	2,789,068	2,191,066	236,939	202,998	3,026,007	2,394,064
Capital grants and contributions	-	36,844	-	-	-	36,844
General revenues:						
Property taxes	47,280,671	47,793,161	-	-	47,280,671	47,793,161
Grants and entitlements	18,599,016	16,201,551	-	-	18,599,016	16,201,551
Payment in lieu of taxes	315,005	685,000	-	-	315,005	685,000
Investment earnings	357,602	648,565	1,945	3,770	359,547	652,335
Gain on disposal of capital assets	-	35,572	-	-	-	35,572
Other	343,376	194,151	24,308	16,850	367,684	211,001
Total revenues	<u>71,547,963</u>	<u>69,643,543</u>	<u>1,980,416</u>	<u>1,927,761</u>	<u>73,528,379</u>	<u>71,571,304</u>
Expenses						
Program expenses:						
Instruction:						
Regular	35,673,643	35,669,330	-	-	35,673,643	35,669,330
Special	7,948,383	7,490,643	-	-	7,948,383	7,490,643
Vocational	580,933	646,877	-	-	580,933	646,877
Other	603,661	464,329	-	-	603,661	464,329
Support services:						
Pupil	4,475,910	4,234,929	-	-	4,475,910	4,234,929
Instructional staff	1,757,308	1,800,774	-	-	1,757,308	1,800,774
Board of Education	49,986	43,196	-	-	49,986	43,196
Administration	3,988,101	3,668,782	-	-	3,988,101	3,668,782
Fiscal	1,693,113	1,488,259	-	-	1,693,113	1,488,259
Business	1,147,994	1,138,065	-	-	1,147,994	1,138,065
Operations and maintenance	8,134,230	7,385,525	-	-	8,134,230	7,385,525
Pupil transportation	3,298,628	3,041,654	-	-	3,298,628	3,041,654
Central	1,132,837	1,040,684	-	-	1,132,837	1,040,684
Operation of non-instructional services	406,599	430,313	-	-	406,599	430,313
Extracurricular activities	1,844,947	1,658,882	-	-	1,844,947	1,658,882
Interest and fiscal charges	835,173	1,729,697	-	-	835,173	1,729,697
Food service	-	-	1,757,244	1,770,656	1,757,244	1,770,656
Uniform school supplies	-	-	109,386	80,518	109,386	80,518
Adult education	-	-	162,038	161,590	162,038	161,590
Total expenses	<u>73,571,446</u>	<u>71,931,939</u>	<u>2,028,668</u>	<u>2,012,764</u>	<u>75,600,114</u>	<u>73,944,703</u>
Transfers	<u>(22,000)</u>	<u>(126,000)</u>	<u>22,000</u>	<u>126,000</u>	<u>-</u>	<u>-</u>
Changes in net assets	(2,045,483)	(2,414,396)	(26,252)	40,997	(2,071,735)	(2,373,399)
Net assets at beginning of year	<u>30,907,651</u>	<u>33,322,047</u>	<u>215,408</u>	<u>174,411</u>	<u>31,123,059</u>	<u>33,496,458</u>
Net assets at end of year	<u>\$ 28,862,168</u>	<u>\$ 30,907,651</u>	<u>\$ 189,156</u>	<u>\$ 215,408</u>	<u>\$ 29,051,324</u>	<u>\$ 31,123,059</u>

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

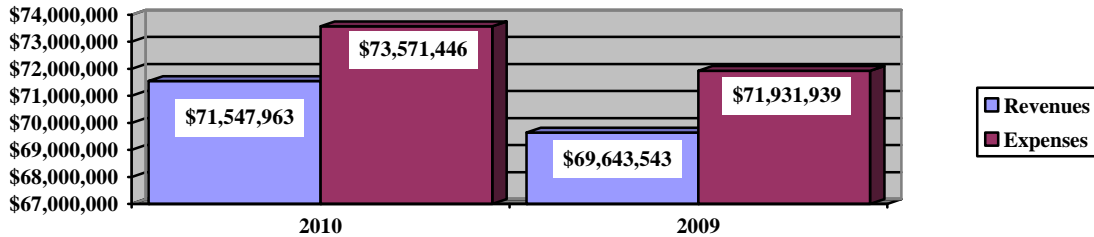
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Governmental Activities

The net assets of the District's governmental activities decreased \$2,045,483. Total governmental expenses of \$73,571,446 were offset by program revenues of \$4,652,293 and general revenues of \$66,895,670. Program revenues supported 6.32% of the total governmental expenses. The decrease in governmental activities net assets is primarily due to the increase of expenses namely in the areas of special instruction, pupil support services and operations and maintenance costs. Special instruction and pupil support services increased primarily due to increased personnel costs. The District received approximately \$2.4 million in additional grants and entitlements in 2010 versus 2009 which supported the increased expenditures. Operations and maintenance expenses increased from 2009 due to increased repair and utility costs. The District experienced an increase in operating grants and contributions in 2010 due to increased funding from the State of Ohio and federal American Recovery and Reinvestments Act (ARRA) grants. Tax revenue remained comparable to 2009 due to fluctuations in the amounts of delinquent taxes receivable which are recorded as revenue in the governmental activities but are deferred revenue in the fund financial statements.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 92.08% of total governmental revenue. Real estate property is reappraised every six years. The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2010 and 2009. It identifies the cost of services supported by tax revenue and restricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 35,673,643	\$ 33,974,973	\$ 35,669,330	\$ 34,070,929
Special	7,948,383	7,188,552	7,490,643	7,355,516
Vocational	580,933	572,536	646,877	638,581
Other	603,661	603,661	464,329	464,329

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**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

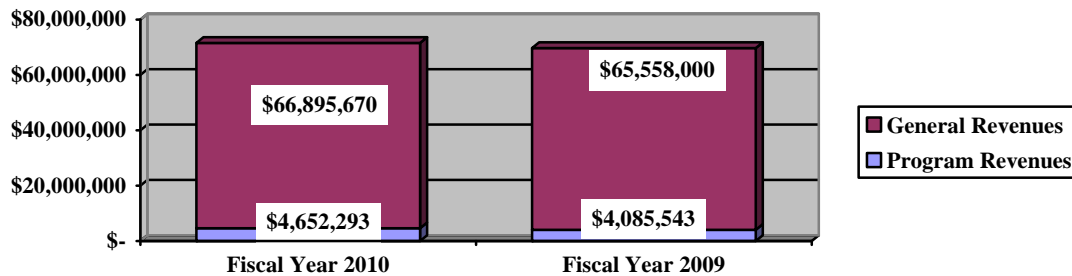
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Support services:				
Pupil	4,475,910	3,553,706	4,234,929	3,185,835
Instructional staff	1,757,308	1,706,179	1,800,774	1,724,543
Board of Education	49,986	49,986	43,196	43,196
Administration	3,988,101	3,988,101	3,668,782	3,668,782
Fiscal	1,693,113	1,693,113	1,488,259	1,488,259
Business	1,147,994	1,147,994	1,138,065	1,138,065
Operations and maintenance	8,134,230	7,968,809	7,385,525	7,204,536
Pupil transportation	3,298,628	3,161,236	3,041,654	2,883,772
Central	1,132,837	1,049,284	1,040,684	1,004,577
Operation of non-instructional services	406,599	32,787	430,313	73,880
Extracurricular activities	1,844,947	1,393,063	1,658,882	1,171,899
Interest and fiscal charges	835,173	835,173	1,729,697	1,729,697
Total expenses	<u>\$ 73,571,446</u>	<u>\$ 68,919,153</u>	<u>\$ 71,931,939</u>	<u>\$ 67,846,396</u>

The dependence upon general revenues during fiscal year 2010 for governmental activities is apparent, as 94.49% of 2010 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 93.68% in 2010. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include adult education, uniform school supplies and the food service operation. These programs had revenues of \$1,980,416, expenses of \$2,028,668 and transfers in of \$22,000 for fiscal year 2010. During fiscal year 2010, the District began evaluating measures to increase revenues and reduce expenses in these programs. The District's business-type activities receive no support from local or State tax revenues.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The District's Funds

During 2010 the District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$19,178,496, which is below last year's total of \$21,250,051. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2009</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 6,425,831	\$ 9,045,404	\$ (2,619,573)	(28.96) %
Debt Service	2,070,133	2,050,858	19,275	0.94 %
Permanent Improvement	8,920,917	8,525,298	395,619	4.64 %
Other Governmental	<u>1,761,615</u>	<u>1,628,491</u>	<u>133,124</u>	8.17 %
Total	<u>\$ 19,178,496</u>	<u>\$ 21,250,051</u>	<u>\$ (2,071,555)</u>	(9.75) %

General Fund

The District's general fund balance decreased \$2,619,573. The tables below assist in illustrating the financial activities of the general fund.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Taxes	\$ 42,242,079	\$ 44,854,281	\$ (2,612,202)	(5.82) %
Payment in lieu of taxes	-	100,000	(100,000)	(100.00) %
Tuition	1,022,063	1,023,962	(1,899)	(0.19) %
Earnings on investments	354,136	601,505	(247,369)	(41.13) %
Intergovernmental	18,104,539	15,838,640	2,265,899	14.31 %
Other revenues	<u>517,241</u>	<u>346,497</u>	<u>170,744</u>	49.28 %
Total	<u>\$ 62,240,058</u>	<u>\$ 62,764,885</u>	<u>\$ (524,827)</u>	(0.84) %

Expenditures

Instruction	\$ 40,961,548	\$ 40,286,362	\$ 675,186	1.68 %
Support services	22,725,269	22,496,358	228,911	1.02 %
Extracurricular activities	1,144,964	1,135,917	9,047	0.80 %
Facilities acquisition and construction	<u>5,850</u>	<u>-</u>	<u>5,850</u>	100.00 %
Total	<u>\$ 64,837,631</u>	<u>\$ 63,918,637</u>	<u>\$ 918,994</u>	1.44 %

The decrease in tax revenue is due primarily to the phase-out of personal property tax in accordance with House Bill No. 66. This decrease in personal property tax is currently reimbursed by the State of Ohio. The reimbursement is recorded as intergovernmental revenue which explains the increase in that line item from the prior year. On May 4, 2010 the District passed a new 6.9 mill continuing operating levy and will begin collections January 1, 2011. This operating levy will increase the tax revenue in fiscal year 2011. The decrease in investment income is due to the downturn in the economy coupled with declining interest rates.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Other revenues include classroom materials and fees, rental income and miscellaneous local revenues. Classroom materials and fees and other local revenues increased \$30,104 and \$156,208, respectively, in 2010 versus 2009. Payments in lieu of taxes for the general fund decreased as the District received their last payments for a revenue sharing agreement with Swagelok Company in 2009.

Instruction expenditures increased 1.68% and support services expenses increased 1.02% from the prior year. These two areas are the District's largest expenditure line items. The increases in these two areas are a direct result of the District's personnel and related benefit costs. The increase from prior year was not significant.

Debt Service Fund

The District's debt service fund balance increased \$19,275. The tables below assist in illustrating the financial activities of the debt service fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,962,276	\$ 2,990,583	\$ (28,307)	(0.95) %
Intergovernmental	<u>308,708</u>	<u>301,302</u>	<u>7,406</u>	2.46 %
Total	<u>\$ 3,270,984</u>	<u>\$ 3,291,885</u>	<u>\$ (20,901)</u>	(0.63) %
<u>Expenditures</u>				
Support services	\$ 21,841	\$ 53,218	\$ (31,377)	(58.96) %
Debt Service:				
Principal retirement	2,360,000	1,503,765	856,235	56.94 %
Interest, fiscal charges and bond issuance costs	<u>976,117</u>	<u>1,915,254</u>	<u>(939,137)</u>	(49.03) %
Total	<u>\$ 3,357,958</u>	<u>\$ 3,472,237</u>	<u>\$ (114,279)</u>	(3.29) %

The expenditures above include bond issuance costs related to a refunding bond transaction. Net cash inflows from the refunding bond transaction are reported as an other financing source rather than revenue. The other financing source, net of \$106,249 allowed fund balance to increase from 2009 to 2010.

Permanent Improvement Fund

The District's permanent improvement fund balance increased \$395,619. The tables below assist in illustrating the financial activities of the permanent improvement fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,259,200	\$ 1,296,245	\$ (37,045)	(2.86) %
Payment in lieu of taxes	315,005	585,000	(269,995)	(46.15) %
Other revenues	93,028	95,022	(1,994)	(2.10) %
Intergovernmental	<u>447,921</u>	<u>241,159</u>	<u>206,762</u>	85.74 %
Total	<u>\$ 2,115,154</u>	<u>\$ 2,217,426</u>	<u>\$ (102,272)</u>	(4.61) %

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 202,666	\$ 870,163	\$ (667,497)	(76.71) %
Facilities acquisition and construction	<u>1,516,869</u>	<u>1,557,953</u>	<u>(41,084)</u>	(2.64) %
Total	<u>\$ 1,719,535</u>	<u>\$ 2,428,116</u>	<u>\$ (708,581)</u>	(29.18) %

The District received less revenue from the revenue sharing arrangement with the City of Solon in 2010 versus 2009 resulting in the decrease to payments in lieu of taxes. This decrease was partially offset by an increase in intergovernmental revenue in 2010. Expenditures decreased in 2010 primarily those related to instruction activities. The District is closely monitoring improvement projects to manage them efficiently. During fiscal year 2010, the District's primary construction project was improvements to the Roxbury elementary school.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$62,703,434, a decrease from the original budget estimates of \$62,893,969. The actual revenues and other financing sources were \$63,129,832, which was \$426,398 higher than the final budget revenues. The primary variances between the final budgeted revenues and actual revenues were in the area of property taxes and intergovernmental-state revenues. These two revenue sources represent 96.96% of the general fund revenues.

General fund original appropriations and other financing uses of \$66,073,024 were increased to \$68,573,024 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$66,818,235, which were \$1,754,789 less than final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

During fiscal year 2010, the District had \$35,467,380 invested in land, land improvements, buildings and improvements, furniture and equipment, and buses and other vehicles. Of this total, \$35,211,888 was reported in governmental activities and \$255,492 was reported in business-type activities.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The following table shows fiscal year 2010 balances compared to 2009:

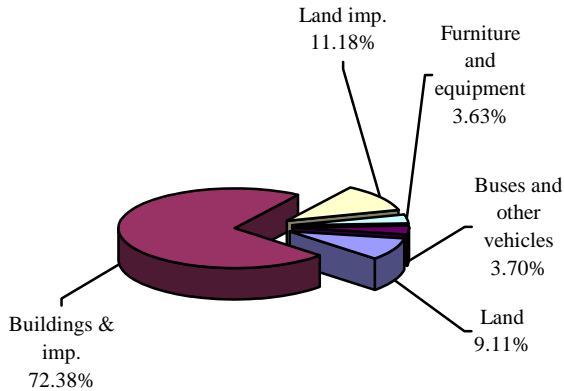
Capital Assets at June 30 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 3,209,494	\$ 3,209,494	\$ -	\$ -	\$ 3,209,494	\$ 3,209,494
Land improvements	3,935,526	4,279,116	-	-	3,935,526	4,279,116
Buildings and improvements	25,483,376	26,396,271	-	-	25,483,376	26,396,271
Furniture and equipment	1,279,668	1,706,282	255,492	277,730	1,535,160	1,984,012
Buses and other vehicles	1,303,824	1,402,740	-	-	1,303,824	1,402,740
Total	\$ 35,211,888	\$ 36,993,903	\$ 255,492	\$ 277,730	\$ 35,467,380	\$ 37,271,633

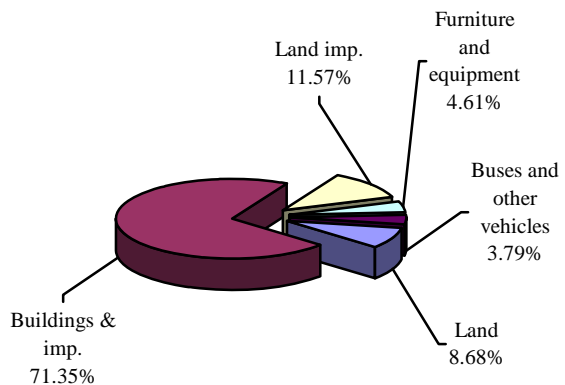
Total additions to governmental activities capital assets for 2010 were \$562,332. Governmental activities depreciation expense for fiscal year 2010 was \$2,344,347. Overall, governmental activities capital assets of the District decreased \$1,782,015.

The following graphs show the breakdown of the governmental activities capital assets by category for 2010 and 2009.

Capital Assets - 2010



Capital Assets - 2009



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

Debt Administration

At June 30, 2010 the District had \$19,992,836 in general obligation bonds outstanding. Of this total, \$2,155,000 is due within one year and \$17,837,836 is due within greater than one year.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The following table summarizes the governmental activities bonds, notes and leases outstanding.

Outstanding Debt, at Year End

	<u>Balance June 30, 2010</u>	<u>Balance June 30, 2009</u>
General obligation bonds	\$ 19,992,836	\$ 22,345,000
Total	<u>\$ 19,992,836</u>	<u>\$ 22,345,000</u>

During fiscal year 2010, the District issued Series 2009 refunding bonds to advance refund the callable portion of the Series 2001 school improvement bonds. This advance refunding was undertaken to reduce the combined total debt service payments over the next 11 years by \$208,698 and resulted in an economic gain of \$177,969.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District closed out its fiscal year on June 30, 2010, on a positive note staying within the total appropriations approved by the Board of Education and spending what was anticipated for the year. According to current financial projections, as evidenced by the District's 5-year plan, the District needs additional operating revenues beginning with the 2010-2011 school year. The promise the Board made to the community during the last levy campaign was additional revenues would not be needed until the 2009-2010 school year. The District was successful in making additional expenditure reductions to help delay the need for additional revenues for one year and provided tax relief to the community during the 2009-2010 school year. The District has also planned on significant additional expenditure reductions during the 2010-2011 school year in an attempt to plan for future deficits resulting from state budget reductions.

On May 4, 2010 the District passed a new 6.9 mill continuing operating levy and will begin collections January 1, 2011.

The Board of Education and administration of the District are committed to careful financial planning and prudent fiscal management. An excellent working and supportive relationship exists between the District, the City of Solon, the Village of Glenwillow, the industrial community and the residents of the City.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Tim Pickana Treasurer of the Solon City School District at 33800 Inwood Road, Solon, Ohio 44139, or e-mail at timpickana@solonboe.org.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 22,928,614	\$ 97,156	\$ 23,025,770
Receivables:			
Property taxes	53,074,293	-	53,074,293
Accounts.	33,415	618	34,033
Accrued interest	124,932	-	124,932
Internal loans	32,000	(32,000)	-
Intergovernmental	609,777	-	609,777
Prepayments	29,877	-	29,877
Materials and supplies inventory.	61,841	4,073	65,914
Inventory held for resale	-	28,187	28,187
Unamortized bond issue costs	164,633	-	164,633
Capital assets:			
Nondepreciable capital assets	3,209,494	-	3,209,494
Depreciable capital assets, net.	32,002,394	255,492	32,257,886
Capital assets, net	<u>35,211,888</u>	<u>255,492</u>	<u>35,467,380</u>
Total assets.	<u>112,271,270</u>	<u>353,526</u>	<u>112,624,796</u>
Liabilities:			
Accounts payable.	506,546	17,192	523,738
Accrued wages and benefits	6,173,449	31,554	6,205,003
Pension obligation payable.	1,104,619	4,418	1,109,037
Intergovernmental payable	286,062	3,124	289,186
Accrued interest payable	72,519	-	72,519
Claims payable.	1,477,300	-	1,477,300
Unearned revenue	43,758,781	-	43,758,781
Long-term liabilities:			
Due within one year.	3,513,674	6,228	3,519,902
Due within more than one year	26,516,152	101,854	26,618,006
Total liabilities	<u>83,409,102</u>	<u>164,370</u>	<u>83,573,472</u>
Net Assets:			
Invested in capital assets, net of related debt.	14,959,401	255,492	15,214,893
Restricted for:			
Capital projects	9,025,143	-	9,025,143
Debt service.	2,285,345	-	2,285,345
Locally funded programs	707,668	-	707,668
State funded programs.	110,042	-	110,042
Federally funded programs	687,894	-	687,894
Public school support	285,964	-	285,964
Student activities	118,270	-	118,270
Unrestricted (deficit)	<u>682,441</u>	<u>(66,336)</u>	<u>616,105</u>
Total net assets	<u>\$ 28,862,168</u>	<u>\$ 189,156</u>	<u>\$ 29,051,324</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Instruction:			
Regular	\$ 35,673,643	\$ 1,237,066	\$ 461,604
Special	7,948,383	10,032	749,799
Vocational	580,933	-	8,397
Other	603,661	-	-
Support services:			
Pupil	4,475,910	-	922,204
Instructional staff	1,757,308	-	51,129
Board of education	49,986	-	-
Administration	3,988,101	-	-
Fiscal	1,693,113	-	-
Business	1,147,994	-	-
Operations and maintenance	8,134,230	165,421	-
Pupil transportation	3,298,628	-	137,392
Central	1,132,837	-	83,553
Operation of non-instructional services:			
Other non-instructional services	406,599	1,376	372,436
Extracurricular activities	1,844,947	449,330	2,554
Interest and fiscal charges	835,173	-	-
Total governmental activities	<u>73,571,446</u>	<u>1,863,225</u>	<u>2,789,068</u>
Business-type activities:			
Food service	1,757,244	1,504,796	236,939
Uniform school supplies	109,386	75,659	-
Adult education	162,038	136,769	-
Total business-type activities	<u>2,028,668</u>	<u>1,717,224</u>	<u>236,939</u>
Totals	<u>\$ 75,600,114</u>	<u>\$ 3,580,449</u>	<u>\$ 3,026,007</u>

General Revenues:

Property taxes levied for:
General purposes
Debt service
Capital projects
Grants and entitlements not restricted to specific programs
Payments in lieu of taxes
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (33,974,973)	\$ -	\$ (33,974,973)
(7,188,552)	-	(7,188,552)
(572,536)	-	(572,536)
(603,661)	-	(603,661)
(3,553,706)	-	(3,553,706)
(1,706,179)	-	(1,706,179)
(49,986)	-	(49,986)
(3,988,101)	-	(3,988,101)
(1,693,113)	-	(1,693,113)
(1,147,994)	-	(1,147,994)
(7,968,809)	-	(7,968,809)
(3,161,236)	-	(3,161,236)
(1,049,284)	-	(1,049,284)
(32,787)	-	(32,787)
(1,393,063)	-	(1,393,063)
(835,173)	-	(835,173)
(68,919,153)	-	(68,919,153)
-	(15,509)	(15,509)
-	(33,727)	(33,727)
-	(25,269)	(25,269)
-	(74,505)	(74,505)
(68,919,153)	(74,505)	(68,993,658)
42,976,751	-	42,976,751
3,024,673	-	3,024,673
1,279,247	-	1,279,247
18,599,016	-	18,599,016
315,005	-	315,005
357,602	1,945	359,547
343,376	24,308	367,684
66,895,670	26,253	66,921,923
(22,000)	22,000	-
66,873,670	48,253	66,921,923
(2,045,483)	(26,252)	(2,071,735)
30,907,651	215,408	31,123,059
\$ 28,862,168	\$ 189,156	\$ 29,051,324

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 9,131,922	\$ 1,635,221	\$ 8,856,067	\$ 1,520,665	\$ 21,143,875
Receivables:					
Property taxes.	48,743,031	3,060,576	1,270,686	-	53,074,293
Accounts.	33,388	-	-	27	33,415
Accrued interest.	124,932	-	-	-	124,932
Interfund loans.	95,000	-	-	-	95,000
Intergovernmental.	-	-	-	609,777	609,777
Prepayments.	29,877	-	-	-	29,877
Materials and supplies inventory.	61,841	-	-	-	61,841
Total assets	<u>\$ 58,219,991</u>	<u>\$ 4,695,797</u>	<u>\$ 10,126,753</u>	<u>\$ 2,130,469</u>	<u>\$ 75,173,010</u>
Liabilities:					
Accounts payable.	\$ 327,996	\$ -	\$ 92,756	\$ 69,265	\$ 490,017
Accrued wages and benefits.	6,173,449	-	-	-	6,173,449
Compensated absences payable.	783,301	-	-	-	783,301
Pension obligation payable.	1,104,619	-	-	-	1,104,619
Intergovernmental payable.	280,981	-	-	5,081	286,062
Interfund loans payable.	-	-	-	63,000	63,000
Deferred revenue.	2,824,234	215,212	77,331	218,508	3,335,285
Unearned revenue.	40,299,580	2,410,452	1,035,749	13,000	43,758,781
Total liabilities.	<u>51,794,160</u>	<u>2,625,664</u>	<u>1,205,836</u>	<u>368,854</u>	<u>55,994,514</u>
Fund Balances:					
Reserved for encumbrances.	1,762,971	-	367,158	74,822	2,204,951
Reserved for materials and supplies inventory.	61,841	-	-	-	61,841
Reserved for prepayments.	29,877	-	-	-	29,877
Reserved for tax revenue unavailable for appropriation.	5,590,739	432,069	155,253	-	6,178,061
Unreserved, undesignated (deficit), reported in:					
General fund.	(1,019,597)	-	-	-	(1,019,597)
Special revenue funds.	-	-	-	1,587,379	1,587,379
Debt service fund.	-	1,638,064	-	-	1,638,064
Capital projects funds.	-	-	8,398,506	99,414	8,497,920
Total fund balances.	<u>6,425,831</u>	<u>2,070,133</u>	<u>8,920,917</u>	<u>1,761,615</u>	<u>19,178,496</u>
Total liabilities and fund balances.	<u>\$ 58,219,991</u>	<u>\$ 4,695,797</u>	<u>\$ 10,126,753</u>	<u>\$ 2,130,469</u>	<u>\$ 75,173,010</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	19,178,496
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			35,211,888
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	3,077,276	
Accrued interest receivable		39,501	
Intergovernmental receivable		<u>218,508</u>	
Total			3,335,285
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.			290,910
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.			(72,519)
Unamortized premiums on bond issuance are not recognized in the funds.			(613,821)
Unamortized bond issuance costs are not recognized in the funds.			164,633
Unamortized deferred charges on refundings are not recognized in the funds.			346,335
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(19,992,836)	
Compensated absences		<u>(8,986,203)</u>	
Total			<u>(28,979,039)</u>
Net assets of governmental activities		\$	<u>28,862,168</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Property taxes	\$ 42,242,079	\$ 2,962,276	\$ 1,259,200	\$ -	\$ 46,463,555
Payment in lieu of taxes	-	-	315,005	-	315,005
Tuition	1,022,063	-	-	-	1,022,063
Earnings on investments	354,136	-	-	333	354,469
Extracurricular	-	-	-	240,605	240,605
Classroom materials and fees	102,953	-	-	-	102,953
Rental income	165,421	-	450	-	165,871
Contributions and donations	-	-	-	139,132	139,132
Other local revenues	248,867	-	92,578	333,664	675,109
Intergovernmental - state	18,104,539	308,708	447,921	308,848	19,170,016
Intergovernmental - federal	-	-	-	1,996,098	1,996,098
Total revenue	<u>62,240,058</u>	<u>3,270,984</u>	<u>2,115,154</u>	<u>3,018,680</u>	<u>70,644,876</u>
Expenditures:					
Current:					
Instruction:					
Regular	32,724,180	-	202,666	511,838	33,438,684
Special	7,069,584	-	-	620,889	7,690,473
Vocational	568,269	-	-	-	568,269
Other	599,515	-	-	-	599,515
Support services:					
Pupil	3,600,637	-	-	745,400	4,346,037
Instructional staff	1,631,440	-	-	96,055	1,727,495
Board of education	49,986	-	-	-	49,986
Administration	3,606,576	-	-	-	3,606,576
Fiscal	1,669,138	21,841	-	-	1,690,979
Business	1,183,297	-	-	-	1,183,297
Operations and maintenance	6,880,918	-	-	-	6,880,918
Pupil transportation	3,053,913	-	-	-	3,053,913
Central	1,049,364	-	-	82,189	1,131,553
Operation of non-instructional	-	-	-	354,089	354,089
Extracurricular activities	1,144,964	-	-	470,052	1,615,016
Facilities acquisition and construction	5,850	-	1,516,869	5,044	1,527,763
Debt service:					
Principal retirement	-	2,360,000	-	-	2,360,000
Interest and fiscal charges	-	870,104	-	-	870,104
Bond issuance costs	-	106,013	-	-	106,013
Total expenditures	<u>64,837,631</u>	<u>3,357,958</u>	<u>1,719,535</u>	<u>2,885,556</u>	<u>72,800,680</u>
Excess/deficiency of revenues over/under expenditures	<u>(2,597,573)</u>	<u>(86,974)</u>	<u>395,619</u>	<u>133,124</u>	<u>(2,155,804)</u>
Other financing sources (uses):					
Premium on refunding bonds sold	-	480,294	-	-	480,294
Issuance of refunding bonds	-	4,020,000	-	-	4,020,000
Payment to refunding bond escrow agent	-	(4,394,045)	-	-	(4,394,045)
Transfers out	(22,000)	-	-	-	(22,000)
Total other financing sources (uses)	<u>(22,000)</u>	<u>106,249</u>	<u>-</u>	<u>-</u>	<u>84,249</u>
Net change in fund balances	(2,619,573)	19,275	395,619	133,124	(2,071,555)
Fund balances at beginning of year	<u>9,045,404</u>	<u>2,050,858</u>	<u>8,525,298</u>	<u>1,628,491</u>	<u>21,250,051</u>
Fund balances at end of year	<u>\$ 6,425,831</u>	<u>\$ 2,070,133</u>	<u>\$ 8,920,917</u>	<u>\$ 1,761,615</u>	<u>\$ 19,178,496</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA 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, 2010

Net change in fund balances - total governmental funds	\$	(2,071,555)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 562,332	
Current year depreciation	(2,344,347)	
Total		(1,782,015)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property taxes	817,116	
Accrued interest	3,453	
Intergovernmental	82,518	
Total		903,087
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		2,360,000
Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		4,394,045
The issuance of refunding bonds is an other financing source in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.		
		(4,020,000)
Premiums on bonds issuance are recognized as an other financing source in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(480,294)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		106,013
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported on the statement of activities:		
Decrease in accrued interest payable	13,739	
Accreted interest on "capital appreciation" bonds	(7,836)	
Amortization of bond issuance costs	(12,139)	
Amortization on bond premiums	68,877	
Amortization of deferred charge on refunding	(27,710)	
Total		34,931
Some expenses reported in the statement of activities, such as the long-term portion of compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(349,332)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(1,140,363)
Change in net assets of governmental activities	\$	(2,045,483)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 42,072,789	\$ 41,882,254	\$ 43,018,429	\$ 1,136,175
Tuition.	1,058,517	1,058,517	1,022,433	(36,084)
Earnings on investments	406,454	406,454	392,598	(13,856)
Classroom materials and fees	106,586	106,586	102,953	(3,633)
Rental income	178,109	178,109	172,037	(6,072)
Other local revenues	237,673	237,673	229,571	(8,102)
Intergovernmental - state	18,833,841	18,833,841	18,191,811	(642,030)
Total revenue	<u>62,893,969</u>	<u>62,703,434</u>	<u>63,129,832</u>	<u>426,398</u>
Expenditures:				
Current:				
Instruction:				
Regular	31,863,145	33,079,349	32,505,777	573,572
Special.	7,279,108	7,553,612	7,336,769	216,843
Vocational.	878,664	912,228	897,097	15,131
Other.	549,155	570,133	560,676	9,457
Support Services:				
Pupil.	3,497,360	3,630,947	3,570,397	60,550
Instructional staff	1,621,171	1,683,008	1,652,746	30,262
Board of education	48,869	50,736	49,894	842
Administration.	3,512,284	3,646,141	3,577,647	68,494
Fiscal	1,707,258	1,772,395	1,740,936	31,459
Business	1,441,993	1,491,619	1,326,385	165,234
Operations and maintenance.	8,288,958	8,593,554	8,141,027	452,527
Pupil transportation	3,178,408	3,299,376	3,233,149	66,227
Central.	917,141	951,530	919,127	32,403
Extracurricular activities.	1,169,184	1,213,474	1,183,758	29,716
Facilities acquisition and construction	5,730	5,949	5,850	99
Total expenditures	<u>65,958,428</u>	<u>68,454,051</u>	<u>66,701,235</u>	<u>1,752,816</u>
Excess of revenues over (under) expenditures.	<u>(3,064,459)</u>	<u>(5,750,617)</u>	<u>(3,571,403)</u>	<u>2,179,214</u>
Other financing sources (uses):				
Transfers out.	(21,548)	(22,371)	(22,000)	371
Advances out	(93,048)	(96,602)	(95,000)	1,602
Total other financing sources (uses)	<u>(114,596)</u>	<u>(118,973)</u>	<u>(117,000)</u>	<u>1,973</u>
Net change in fund balance	(3,179,055)	(5,869,590)	(3,688,403)	2,181,187
Fund balance at beginning of year	10,366,966	10,366,966	10,366,966	-
Prior year encumbrances appropriated	627,764	627,764	627,764	-
Fund balance at end of year	<u>\$ 7,815,675</u>	<u>\$ 5,125,140</u>	<u>\$ 7,306,327</u>	<u>\$ 2,181,187</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 97,156	\$ 1,784,739
Receivables:		
Accounts	618	-
Materials and supplies inventory.	4,073	-
Inventory held for resale	<u>28,187</u>	<u>-</u>
Total current assets	<u>130,034</u>	<u>1,784,739</u>
Noncurrent assets:		
Depreciable capital assets, net	<u>255,492</u>	<u>-</u>
Total assets	<u>385,526</u>	<u>1,784,739</u>
Liabilities:		
Accounts payable.	17,192	16,529
Accrued wages and benefits	31,554	-
Compensated absences.	6,228	-
Pension obligation payable.	4,418	-
Interfund loan payable	32,000	-
Intergovernmental payable	3,124	-
Claims payable	<u>-</u>	<u>1,477,300</u>
Total current liabilities	<u>94,516</u>	<u>1,493,829</u>
Long-term liabilities:		
Compensated absences payable.	<u>101,854</u>	<u>-</u>
Total long-term liabilities	<u>101,854</u>	<u>-</u>
Total liabilities	<u>196,370</u>	<u>1,493,829</u>
Net assets:		
Invested in capital assets, net of related debt	255,492	-
Unrestricted (deficit)	<u>(66,336)</u>	<u>290,910</u>
Total net assets	<u>\$ 189,156</u>	<u>\$ 290,910</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Operating revenues:		
Tuition and fees.	\$ 212,428	\$ -
Sales/charges for services.	1,504,796	7,325,968
Other	21,308	-
	<hr/>	<hr/>
Total operating revenues	1,738,532	7,325,968
Operating expenses:		
Personal services.	1,033,475	-
Purchased services.	121,434	29,978
Materials and supplies	832,595	-
Other.	18,926	-
Claims	-	8,436,353
Depreciation	22,238	-
	<hr/>	<hr/>
Total operating expenses.	2,028,668	8,466,331
Operating loss	<hr/> (290,136)	<hr/> (1,140,363)
Nonoperating revenues:		
Grants and subsidies.	189,900	-
Interest revenue	1,945	-
Federal donated commodities	47,039	-
Other nonoperating revenue	3,000	-
	<hr/>	<hr/>
Total nonoperating revenues.	241,884	-
Loss before transfers	(48,252)	(1,140,363)
Transfer in	22,000	-
	<hr/>	<hr/>
Change in net assets.	(26,252)	(1,140,363)
Net assets at beginning of year	<hr/> 215,408	<hr/> 1,431,273
Net assets at end of year.	<hr/> <u>\$ 189,156</u>	<hr/> <u>\$ 290,910</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 212,428	\$ -
Cash received from sales/charges for services.	1,505,811	7,325,968
Cash received from other operations	21,435	200
Cash payments for personal services.	(1,078,565)	-
Cash payments for contractual services	(121,049)	(22,663)
Cash payments for materials and supplies	(780,547)	-
Cash payments for claims	-	(7,645,390)
Cash payments for other expenses	(18,926)	-
	<u>(259,413)</u>	<u>(341,885)</u>
Net cash used in operating activities		
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	189,900	-
Cash received from transfers in	22,000	-
Cash received from interfund loans	32,000	-
	<u>243,900</u>	<u>-</u>
Net cash provided by noncapital financing activities.		
Cash flows from investing activities:		
Interest received	1,945	-
	<u>1,945</u>	<u>-</u>
Net cash provided by investing activities		
Net decrease in cash and cash cash equivalents	(13,568)	(341,885)
Cash and cash equivalents at beginning of year . . .	<u>110,724</u>	<u>2,126,624</u>
Cash and cash equivalents at end of year	<u><u>\$ 97,156</u></u>	<u><u>\$ 1,784,739</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (290,136)	\$ (1,140,363)
Adjustments:		
Depreciation.	22,238	-
Federal donated commodities	47,039	-
Changes in assets and liabilities:		
Decrease in materials and supplies inventory	480	-
Decrease in inventory held for resale.	1,412	-
Decrease in accounts receivable.	1,142	200
Increase in accounts payable	3,502	6,978
(Decrease) in accrued wages and benefits	(13,133)	-
(Decrease) in intergovernmental payable.	(43,024)	-
Increase in compensated absences payable.	6,649	-
Increase in pension obligation payable.	4,418	-
(Decrease) in claims payable	-	791,300
	<u>(259,413)</u>	<u>(341,885)</u>
Net cash (used in) operating activities	<u><u>\$ (259,413)</u></u>	<u><u>\$ (341,885)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUND
 JUNE 30, 2010

	Agency
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 219,566
Receivables:	
Accounts	125
Total assets.	\$ 219,691
Liabilities:	
Accounts payable.	\$ 3,700
Due to students.	215,991
Total liabilities	\$ 219,691

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Solon City School District (the "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 District operates under a locally elected five-member Board of Education and provides educational services as mandated by State and/or federal agencies. The District operates four elementary schools (K-4), one lower middle school (5-6), one upper middle school (7-8), and one high school (9-12). The Board oversees the operations of the District's seven instructional facilities.

The District ranks as the 65th largest by enrollment among the 934 public school districts and community schools in the State of Ohio. The District employs 247 non-certified, 382 certified and 17 administrative employees to provide services to approximately 5,226 students and community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The most significant of the District's accounting policies are described below.

A. Reporting Entity

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

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

The District is associated with a public entity risk pool and a jointly governed organization.

JOINTLY GOVERNED ORGANIZATIONS

The Ohio Schools' Council Association

The Ohio Schools' Council Association (Council) is a jointly governed organization among 121 school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting David A. Cottrell, the Executive Director/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's electric purchase program. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to the actual usage for the year and any necessary adjustments are made.

In April 2005, the Energy Acquisition Corporation II, a non-profit corporation with a self-appointing board, issued \$246 million in bonds and used the proceeds to prepay for the estimated electric energy costs for 249 entities from Cleveland Electric Illuminating, Ohio Edison and Toledo Edison. The participating school districts are not obligated in any manner for this debt.

The District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to the actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for their participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

PUBLIC ENTITY RISK POOL

The Ohio Schools' Council Workers' Compensation Group Rating Program (the "Plan") is an insurance purchasing pool (see Note 10.C.). The plan is intended to reduce premiums for the participants. The Worker's 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 Plan.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the District's major governmental funds:

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

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

Permanent improvement fund - This fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Ohio Revised Code.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds or the permanent improvement fund; and (b) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

The District has no major enterprise funds. The District has three nonmajor enterprise funds, which account for (1) food service operations, (2) the purchase and sale of school supplies and (3) educational opportunities offered on a tuition basis to preschoolers, youth and adults living within the community.

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The internal service fund of the District accounts for a self-insurance program which provides medical, dental and vision benefits.

FIDUCIARY FUNDS

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

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. 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 fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds 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 District finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Nonexchange transactions, in which the 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue in the governmental funds.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported as donated commodities revenue with a like amount reported as materials and supplies expense in the proprietary fund statements.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budget documents within an established timetable. The major documents prepared are the Tax Budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budgeted revenues in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenues in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. The amounts reported as the original budgeted expenditures 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 expenditures represent the final appropriation amounts passed by the Board during the year.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

TAX BUDGET

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

ESTIMATED RESOURCES

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District. The amounts reported in the budgetary statements reflect the amounts in the original and final amended certificate of estimated resources issued during fiscal year 2010.

APPROPRIATIONS

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. Prior to the passage of the annual appropriation resolution, the Board of Education may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the appropriations at the legal level of control must be approved by the Board of Education. The District maintains budgetary information at the object level and has the authority to allocate appropriations at the object level in all funds without resolution by the Board of Education.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. Supplemental appropriations were legally enacted by the Board during fiscal year 2010.

The budget figures, which appear in the statement of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

ENCUMBRANCES

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the fund financial statements, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for the subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

LAPSING OF APPROPRIATIONS

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

F. Cash and Investments

To improve cash management, cash received by the District, other than cash reported in segregated accounts, is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2010, investments were limited to Federal Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, nonnegotiable certificates of deposit, negotiable certificates of deposit, U.S. Treasury notes, U.S. government money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$354,136 which includes \$204,345 assigned from other District funds.

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

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

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds, except donated commodities, are stated at the lower of cost or market. Donated commodities are stated at their entitlement value. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used. Inventories for governmental funds and proprietary funds are accounted for using the consumption method.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The 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. Interest incurred during the construction of general capital assets is not capitalized.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10 - 30 years	N/A
Buildings and improvements	20 - 40 years	N/A
Furniture and equipment	5 - 20 years	5 - 20 years
Buses and other vehicles	8 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

A liability for sick leave is accrued using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the District’s past experience of making termination payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a 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 have been established for encumbrances, materials and supplies inventory, prepayments and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. 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 the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

O. Non-Public Schools

Within the District boundaries are various non-public schools. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District, as directed by the non-public school. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund (a nonmajor governmental fund) for financial reporting purposes.

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the 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. The District had no restricted assets at June 30, 2010.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service, uniform school supplies and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenue.

S. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2010, the District had no extraordinary or special items.

U. Unamortized Bond Issuance Costs, Bond Premiums and Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refunding resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2010 included the following individual fund deficits:

	Deficit
<u>Nonmajor enterprise fund</u>	
Adult and Community Education	\$ 10,774
 <u>Nonmajor governmental fund</u>	
Improving Teacher Quality	29,129

The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur. The deficit fund balances/net assets resulted from adjustments for accrued liabilities and from the reporting of advances in as a fund liability rather than as a other financing source (governmental fund) or nonoperating revenue (enterprise fund). The deficit balances should be eliminated by future tuition revenues in the Adult and Community Education fund and intergovernmental revenues in the Improving Teacher Quality fund not recognized under GAAP at June 30.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

Protection of 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.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash on Hand

At year end, the District had \$841 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits, including nonnegotiable certificates of deposit, was \$4,019,583. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$2,442,844 of the District's bank balance of \$4,859,123 was exposed to custodial risk as discussed below, while \$2,416,279 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. It is the District's policy that all deposits be collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2010, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater Than 24 months
FHLB	\$ 6,547,030	\$ 2,527,030	\$ 2,017,500	\$ -	\$ -	\$ 2,002,500
FNMA	6,725,383	-	-	-	-	6,725,383
FHLMC	3,084,837	1,080,637	-	-	-	2,004,200
FFCB	247,680	-	-	-	-	247,680
U.S. Treasury Notes	2,006,260	2,006,260	-	-	-	-
Negotiable CD's	585,501	-	-	490,442	-	95,059
U.S Government Money						
Market Mutual Funds	25,400	25,400	-	-	-	-
STAR Ohio	2,821	2,821	-	-	-	-
	<u>\$ 19,224,912</u>	<u>\$ 5,642,148</u>	<u>\$ 2,017,500</u>	<u>\$ 490,442</u>	<u>\$ -</u>	<u>\$ 11,074,822</u>

The weighted average maturity of investments is 2.07 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. The federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and U.S. Treasury notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 6,547,030	34.05%
FNMA	6,725,383	34.98%
FHLMC	3,084,837	16.05%
FFCB	247,680	1.29%
U.S. Treasury Notes	2,006,260	10.44%
Negotiable CD's	585,501	3.05%
U.S. Government Money		
Market Mutual Funds	25,400	0.13%
STAR Ohio	2,821	0.01%
	<u>\$ 19,224,912</u>	<u>100.00%</u>

D. Reconciliation of cash and investments to the statement of net assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 4,019,583
Investments	19,224,912
Cash on hand	<u>841</u>
Total	<u>\$ 23,245,336</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 22,928,614
Business-type activities	97,156
Agency fund	<u>219,566</u>
Total	<u>\$ 23,245,336</u>

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor enterprise	\$ 32,000
General	Nonmajor governmental	<u>63,000</u>
	Total	<u>\$ 95,000</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund loans receivable/payable between governmental funds are eliminated for reporting on the statement of net assets. Interfund loan balances between governmental funds (governmental activities) and enterprise funds (business-type activities) are reported on the statement of net assets as an “internal balance”.

- B.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor enterprise funds	<u>\$ 22,000</u>
Total	<u>\$ 22,000</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 District prior to June 30.

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$5,590,739 in the general fund, \$432,069 in the debt service fund and \$155,253 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$6,435,908 in the general fund, \$479,742 in the debt service fund and \$179,837 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 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 unearned revenue.

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 1,165,528,830	94.77	\$ 1,150,565,900	98.30
Public utility personal	18,654,750	1.52	19,808,660	1.70
Tangible personal property	<u>45,589,773</u>	<u>3.71</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 1,229,773,353</u></u>	<u><u>100.00</u></u>	<u><u>\$ 1,170,374,560</u></u>	<u><u>100.00</u></u>
Tax rate per \$1,000 of assessed valuation	\$75.30		\$82.20	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. Principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes	\$ 53,074,293
Accounts	33,415
Intergovernmental	609,777
Accrued interest	<u>124,932</u>
Total governmental activities	<u><u>\$ 53,842,417</u></u>

Business-type activities

Accounts	<u>\$ 618</u>
Total business-type activities	<u><u>\$ 618</u></u>

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2010, was as follows:

	Balance			Balance
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,209,494	\$ -	\$ -	\$ 3,209,494
Total capital assets, not being depreciated	<u>3,209,494</u>	<u>-</u>	<u>-</u>	<u>3,209,494</u>
Capital assets, being depreciated:				
Land improvements	6,486,595	-	-	6,486,595
Buildings and improvements	54,574,257	285,468	-	54,859,725
Furniture and equipment	4,988,832	63,864	-	5,052,696
Buses and other vehicles	3,498,077	213,000	(122,937)	3,588,140
Total capital assets, being depreciated	<u>69,547,761</u>	<u>562,332</u>	<u>(122,937)</u>	<u>69,987,156</u>
Less: accumulated depreciation				
Land improvements	(2,207,479)	(343,590)	-	(2,551,069)
Buildings and improvements	(28,177,986)	(1,198,363)	-	(29,376,349)
Furniture and equipment	(3,282,550)	(490,478)	-	(3,773,028)
Buses and other vehicles	(2,095,337)	(311,916)	122,937	(2,284,316)
Total accumulated depreciation	<u>(35,763,352)</u>	<u>(2,344,347)</u>	<u>122,937</u>	<u>(37,984,762)</u>
Governmental activities capital assets, net	<u>\$ 36,993,903</u>	<u>\$ (1,782,015)</u>	<u>\$ -</u>	<u>\$ 35,211,888</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,422,460
Special	23,002
Vocational	12,664
Support Services:	
Pupil	57,192
Administration	15,802
Operations and maintenance of plant	228,906
Pupil transportation	282,008
Operation of non-instructional services	53,100
Extracurricular activities	<u>249,213</u>
Total depreciation expense	<u>\$ 2,344,347</u>

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS - (Continued)

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance			Balance
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
Business-type activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$ 508,475	\$ -	\$ -	\$ 508,475
Less: accumulated depreciation	<u>(230,745)</u>	<u>(22,238)</u>	<u>-</u>	<u>(252,983)</u>
Business-type activities capital assets, net	<u>\$ 277,730</u>	<u>\$ (22,238)</u>	<u>\$ -</u>	<u>\$ 255,492</u>

Depreciation expense was charged to business-type activities as follows:

Food service	<u>\$ 22,238</u>
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**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS

A. The changes in the District's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental activities:					
General obligation bonds:					
1989 \$2,850,000 School Improvement Bonds - 6.90%	\$ 250,000	\$ -	\$ (250,000)	-	\$ -
1997 \$6,000,000 School Improvement Bonds - 5.3%	3,675,000	-	(335,000)	3,340,000	365,000
2001 \$7,000,000 School Improvement Bonds - 4 - 5.125%	5,010,000	-	(4,335,000)	675,000	330,000
2003 \$6,000,000 School Improvement Bonds - 2.0 - 5.0%	4,860,000	-	(245,000)	4,615,000	255,000
2004 \$5,070,000 Refunding Bonds - 4%	4,970,000	-	(1,010,000)	3,960,000	985,000
2005 \$4,000,000 School Improvement Bonds- 3.2 - 4.00%	3,580,000	-	(150,000)	3,430,000	150,000
2009 \$4,020,000 Refunding Bonds:					
Current interest - 2.000 - 4.125%	-	3,990,000	(55,000)	3,935,000	70,000
Capital appreciation bonds	-	30,000	-	30,000	-
Accreted interest	-	7,836	-	7,836	-
Total G.O. bonds	<u>22,345,000</u>	<u>4,027,836</u>	<u>(6,380,000)</u>	<u>19,992,836</u>	<u>2,155,000</u>
Compensated absences payable	<u>9,233,363</u>	<u>1,904,459</u>	<u>(1,368,318)</u>	<u>9,769,504</u>	<u>1,358,674</u>
Total governmental activities long-term liabilities	31,578,363	<u>\$ 5,932,295</u>	<u>\$ (7,748,318)</u>	29,762,340	<u>\$ 3,513,674</u>
Add: unamortized premium	202,404			613,821	
Less: deferred charges on refunding	<u>-</u>			<u>(346,335)</u>	
Total on statement of net assets	<u>\$ 31,780,767</u>			<u>\$ 30,029,826</u>	
Business-Type Activities					
Compensated absences	<u>\$ 101,433</u>	<u>\$ 26,142</u>	<u>\$ (19,493)</u>	<u>\$ 108,082</u>	<u>\$ 6,228</u>
Total business-type activities long-term liabilities	<u>\$ 101,433</u>	<u>\$ 26,142</u>	<u>\$ (19,493)</u>	<u>\$ 108,082</u>	<u>\$ 6,228</u>

Compensated absences will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund.

All general obligation bonds will be repaid from property taxes in the debt service fund.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

During fiscal year 1989, the District issued \$2,850,000 in general obligation bonds at 6.9 percent with a maturity date of December 1, 2009. This bond was retired in fiscal year 2010.

On February 15, 1997, the District issued \$6,000,000 in general obligation bonds with interest rates ranging from 3.6 to 5.5 percent with a maturity date of December 1, 2016.

On May 1, 2001, the District issued \$7,000,000 in general obligation bonds with interest rates ranging from 4.0 to 5.125 percent with a maturity date of June 30, 2020.

On December 1, 2003 the District issued \$6,000,000 of general obligation bonds with interest rates ranging from 2.0 to 5.0 percent payable semiannually. The bond maturity date is December 1, 2023.

On December 22, 2004 the District issued School Improvement Refunding Bonds in the amount of \$5,070,000 (par value) with interest rates ranging from 2.00-5.00 percent to advance refund Series 1993 refunding bonds in the amount of \$5,085,000 (par value) with an interest rate of 5.3 percent. The refunding bonds mature on December 1, 2013. These bonds were issued at a premium of \$260,255 with issuance costs of \$103,878. The advance refunding met the requirement of an in-substance debt defeasance and the advance refunded bonds were removed from the District's government-wide financial statements (see Note 9.B).

On December 22, 2005 the District issued \$4,000,000 of school improvement bonds for the purpose of renovating, remodeling, adding to, furnishing, equipping and otherwise improving school facilities and acquiring and improving District sites. The school improvement bonds have interest rates ranging from 3.2 to 4.0 percent, payable semiannually, with a maturity date of December 1, 2025.

Series 2009 Refunding General Obligation Bonds

On September 3, 2009, the District issued general obligation bonds (Series 2009 Refunding Bonds) to advance refund the callable of the Series 2001 school improvement bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets (see Note 9.B).

The refunding issue is comprised of both current interest bonds, par value \$3,990,000, and capital appreciation bonds par value \$30,000. The interest rates on the current interest bonds range from 2.000% - 4.125%. The capital appreciation bonds mature on December 1, 2017 (effective interest rate 36.92%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$490,000. Total accreted interest of \$7,836 has been included in the statement of net assets at June 30, 2010.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2020.

The reacquisition price exceeded the net carrying amount of the old debt by \$374,045. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce the combined total debt service payments over the next 11 years by \$208,698 and resulted in an economic gain of \$177,969.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the District's general obligation bonds:

Fiscal Year Ending June 30	Current Interest General Obligation Bonds			Capital Appreciation General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 2,155,000	\$ 816,665	\$ 2,971,665	\$ -	\$ -	\$ -
2012	2,205,000	733,335	2,938,335	-	-	-
2013	2,315,000	640,021	2,955,021	-	-	-
2014	2,380,000	539,025	2,919,025	-	-	-
2015	1,430,000	458,948	1,888,948	-	-	-
2016 - 2020	5,760,000	1,448,621	7,208,621	30,000	460,000	490,000
2021 - 2025	3,420,000	390,687	3,810,687	-	-	-
2026 - 2030	290,000	6,525	296,525	-	-	-
Total	<u>\$ 19,955,000</u>	<u>\$ 5,033,827</u>	<u>\$24,988,827</u>	<u>\$ 30,000</u>	<u>\$ 460,000</u>	<u>\$ 490,000</u>

B. Defeased Debt

In fiscal year 2005, the District issued Series 2004 refunding bonds to advance refund the callable portion of the Series 1993 refunding bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2010, the balance of the Series 1993 defeased debt outstanding but removed from the financial statements amounted to \$4,080,000.

In fiscal year 2010, the District issued Series 2009 refunding bonds to advance refund the callable portion of the Series 2001 school improvement bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2010, the balance of the Series 2001 defeased debt outstanding but removed from the financial statements amounted to \$4,020,000.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$87,418,843 and an unvoted debt margin of \$1,170,375.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During 2010, the District contracted with the Ohio Casualty Insurance Company for the following insurance coverage:

Type of Coverage	Coverage
Property Coverage:	
Blanket buildings and contents	\$ 128,609,032
Inland Marine:	
Athletic and other equipment	100,000
Musical instruments	100,000
Audio visual equipment	100,000
Fine arts	100,000
Signs	10,000
Shop dwellings	100,000
Commercial Crime Coverage:	
Theft, disappearance and destruction	25,000
Robbery and safe burglary	25,000
Computer fraud	25,000
Forgery or alterations	25,000
Employee dishonesty	100,000
Flood Coverage	1,000,000
Commercial Computer Coverage:	
Equipment	2,723,077
Extra expense	5,000

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - RISK MANAGEMENT - (Continued)

Type of Coverage	Coverage
Equipment Breakdown Coverage:	
Hazardous substances	25,000
CFC refrigerants	100,000
Auto Liability	1,000,000
Uninsured Motorist	250,000
Commercial General Liability:	
Each occurrence	1,000,000
Fire damages	300,000
Medical expense limit	15,000
Personal and advertising injury	1,000,000
General aggregate	2,000,000
Products/completed operations aggregate	2,000,000
Employers Stop Gap Liability:	
Bodily injury by accident	1,000,000
Bodily injury by disease	1,000,000
Aggregate limit	1,000,000
School Leaders Errors and Omissions:	
Each wrongful act limit	1,000,000
Aggregate limit	1,000,000
Non-monetary relief defense	100,000
Sexual Misconduct and Molestation Liability:	
Each loss limit	1,000,000
Aggregate limit	1,000,000
Innocent party defense	300,000
Employee Benefits Liability:	
Employee Benefits Injury	
(Each employee limit)	1,000,000
(Aggregate limit)	3,000,000
Umbrella	10,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2009.

B. Employee Benefits

The District has elected to contract with Medical Mutual of Ohio as a program administrator to provide medical benefits for employees through a self-insured program. These benefits are accounted for in the internal service fund. An excess coverage insurance (stop loss) policy covers claims in excess of \$175,000 per employee.

The internal service fund pays for the costs of providing claims servicing and claims payment. The premium charged for family coverage is \$1,041 and single coverage is \$982 per month for classified employees and certified employees. The benefits that are included in this lump sum premium are medical, dental, vision and life insurance.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$1,477,300 reported in the internal service fund at June 30, 2010, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim 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. The balance of claims payable at June 30, 2010 represents an estimate of the liability for unpaid claims costs provided by Medical Mutual of Ohio.

Changes in the claims liability for 2008 through 2010 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2010	\$ 686,000	\$ 8,436,690	\$ (7,645,390)	\$ 1,477,300
2009	1,524,300	6,517,174	(7,355,474)	686,000
2008	1,498,600	5,910,791	(5,885,091)	1,524,300

C. Workers' Compensation Program

For fiscal year 2010, the District participated in the Ohio Schools' Council Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. 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 Plan.

Each participant pays its Workers' Compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. Each year, the District pays an enrollment fee to the Plan to cover costs of administering the program

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to classified employees for 100 percent of the total sick leave accumulation, up to a maximum accumulation of 100 days, and for one-fourth of the remaining accumulated sick leave with a maximum accumulation of 150 days. Upon retirement, payment is made to teachers and administrators for 100 percent of total sick leave accumulation, with a maximum accumulation of 75 days.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Retirement Incentive

Starting in fiscal year 2002, the District offered a one-time retirement incentive payment of 75 percent of the employee's current salary to eligible certified employees. The certified employee who retires with 30 years of service and is immediately eligible to receive benefits from the State Teachers Retirement System will be paid the retirement incentive.

At June 30, 2010, the District's retirement payout liability was \$725,899 and has been recorded as a component of "compensated absences payable" on the financial statements.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,254,346, \$874,510 and \$974,171, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 12 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$4,391,250, \$4,323,710 and \$4,100,399, respectively; 91.67 percent has been contributed for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$181,482 made by the District and \$129,631 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, three members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$189,268, \$582,667 and \$497,866, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$74,593, \$72,154 and \$62,026, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$337,788, \$332,593 and \$423,257, respectively; 91.67 percent has been contributed for 2010 and 100 percent has been contributed for fiscal years 2009 and 2008.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (3,688,403)
Net adjustment for revenue accruals	(889,774)
Net adjustment for expenditure accruals	(124,865)
Net adjustment for other sources/uses	95,000
Adjustment for encumbrances	1,988,469
GAAP basis	\$ (2,619,573)

NOTE 15 - STATUTORY RESERVES

The 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. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year end set-aside amounts for textbooks/instructional materials and capital acquisition. Disclosure of this information is required by state statute:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance at June 30, 2009	\$ (2,236,832)	\$ -
Current year set-aside requirement	886,961	886,961
Qualifying off-sets	-	(1,281,431)
Qualifying disbursements	(522,854)	(169,881)
Total	\$ (1,872,725)	\$ (564,351)
Balance carried forward to fiscal year 2011	\$ (1,872,725)	\$ -

The District had carryover balance and qualifying disbursements during the year that reduced the textbook/instructional materials set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement for future years for textbooks/instructional materials. The negative amount is therefore presented as being carried forward to next fiscal year. Although the District had offsets and 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 of future years. The negative amount is therefore not presented as being carried forward to next fiscal year.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - PAYMENT IN LIEU OF TAXES

A. Foreign Trade Zone and Community Reinvestment Area Tax Abatements

In March 2004, Swagelok Company, located within the District's limits, applied for and received an activated permanent General Purpose Foreign Trade Zone and a Community Reinvestment Area Tax Abatement in connection with a proposed expansion project. In connection with the above, the District entered into a Revenue Sharing Agreement with the Village of Glenwillow to compensate the District for a loss of anticipated revenues resulting from the Community Reinvestment Area and Foreign Trade Zone tax exemptions. During fiscal year 2010, the District received \$295,005 in revenue as a result of the Revenue Sharing Agreement with the Village. This revenue is reported in the permanent improvement fund.

B. Tax Increment Financing Payments

The District has entered into an agreement with the City of Solon to receive payments related to the Kruse Drive tax increment financing (TIF) project. The City collects the TIF revenue and distributes an agreed upon amount to the District. During fiscal year 2010, the District received \$20,000 in revenue from the City of Solon as a result of this agreement. This revenue is reported in the permanent improvement fund.

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**OLON CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Grantor Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Lunch Program	N/A	10.555	\$ 186,054	\$ 46,778	\$ 186,054	\$ 46,778
Cash Assistance Total			186,054	46,778	186,054	46,778
Total Child Nutrition Cluster			<u>186,054</u>	<u>46,778</u>	<u>186,054</u>	<u>46,778</u>
Total U.S. Department of Agriculture			<u>186,054</u>	<u>46,778</u>	<u>186,054</u>	<u>46,778</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A Cluster:						
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2009	N/A	84.010	56,711		85,711	
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2010	N/A	84.010	164,569		139,569	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act - 2010	N/A	84.389	88,787		78,787	
Total Title I, Part A Cluster			<u>310,067</u>	-	<u>304,067</u>	-
Special Education Cluster (IDEA):						
Special Education - Grants to States (IDEA, Part B) - 1997	N/A	84.027	-		558	
Special Education - Grants to States (IDEA, Part B) - 1998	N/A	84.027	-		218	
Special Education - Grants to States (IDEA, Part B) - 2009	N/A	84.027	130,922		204,084	
Special Education - Grants to States (IDEA, Part B) - 2010	N/A	84.027	550,130		536,773	
ARRA - Special Education - Grants to States (IDEA, Part B) - 2010	N/A	84.391	504,384		466,182	
Total Special Education - Grants to States (IDEA, Part B)			<u>1,185,436</u>	-	<u>1,207,815</u>	-
Special Education - Preschool Grants (IDEA Preschool) - 2009	N/A	84.173	2,156		4,156	
Special Education - Preschool Grants (IDEA Preschool) - 2010	N/A	84.173	14,625		12,625	
ARRA - Special Education - Preschool Grants (IDEA Preschool) - 2010	N/A	84.392	20,082		17,082	
Total Special Education - Preschool Grants (IDEA Preschool)			<u>36,863</u>	-	<u>33,863</u>	-
Total Special Education Cluster (IDEA)			<u>1,222,299</u>	-	<u>1,241,678</u>	-
Safe and Drug-Free Schools and Communities - State Grants - 2010	N/A	84.186	6,859		5,859	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>6,859</u>	-	<u>5,859</u>	-
State Grants for Innovative Programs - 1998	N/A	84.298	-		212	
State Grants for Innovative Programs - 2009	N/A	84.298	3,624		3,621	
Total State Grants for Innovative Programs			<u>3,624</u>	-	<u>3,833</u>	-
Education Technology State Grants - 2009	N/A	84.318	1,523		1,804	
Education Technology State Grants - 2010	N/A	84.318	252		1,000	
Total Education Technology State Grants			<u>1,775</u>	-	<u>2,804</u>	-
English Language Acquisition Grants - 2009	N/A	84.365	3,976		7,476	
English Language Acquisition Grants - 2010	N/A	84.365	19,116		16,116	
Total English Language Acquisition Grants			<u>23,092</u>	-	<u>23,592</u>	-
Improving Teacher Quality State Grants - 2009	N/A	84.367	6,466		8,486	
Improving Teacher Quality State Grants - 2010	N/A	84.367	45,620		62,811	
Total Improving Teacher Quality State Grants			<u>52,086</u>	-	<u>71,297</u>	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	N/A	84.394	184,208		182,941	
Total U.S. Department of Education			<u>1,804,010</u>	-	<u>1,836,071</u>	-
Total Federal Financial Assistance			<u>\$ 1,990,064</u>	<u>\$ 46,778</u>	<u>\$ 2,022,125</u>	<u>\$ 46,778</u>

The accompanying notes are an integral part of this schedule.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



Dave Yost • Auditor of State

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

Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 2, 2011.

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

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

Dave Yost
Auditor of State

February 2, 2011



Dave Yost • Auditor of State

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

Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

To the Board of Education:

Compliance

We have audited the compliance of the Solon City School District, Cuyahoga County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Solon City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Solon City School District, Cuyahoga County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 2, 2011.

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



Dave Yost
Auditor of State

February 2, 2011

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Part A Cluster: Title I Grants to LEA – CFDA #84.010 and #84.389 (ARRA) Special Education Cluster: Special Ed. – Grants to States – CFDA #84.027, #84.391 (ARRA) Special Ed. – Preschool Grants – CFDA #84.173, #84.392 (ARRA)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

SOLON CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2011**