

**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

Board of Education
Euclid City School District
651 222nd Street
Euclid, Ohio 44123

We have reviewed the *Independent Auditor's Report* of the Euclid City School District, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 16, 2012

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**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

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

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Euclid City School District
Euclid, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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 the Euclid City School District, Cuyahoga County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Euclid City School District, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 the Euclid City School District, Ohio, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, 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.

As described in Note 4 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of the Euclid City School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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


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

December 16, 2011

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011 (Unaudited)

The management's discussion and analysis of the Euclid 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, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the transmittal letter, notes to the basic financial statements, and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets increased \$29,934,368 or by 86.0 percent. Net assets of governmental activities increased \$30,032,400 which represents an 87.9 percent increase from 2010 to 2011. Net assets of business-type activities decreased \$98,032 which represents a 16.0 percent decrease from 2010 to 2011.
- General revenues accounted for \$103,039,350 in revenue or 89.6 percent of all governmental revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$11,953,187 or 10.4 percent of total governmental revenues of \$114,992,537.
- Total assets of governmental activities increased by \$28,818,087 as current and other assets increased by \$24,507,636 and capital assets increased by \$4,310,451. Total liabilities of governmental activities decreased by \$1,214,313. The increase in assets is mainly related to an intergovernmental receivable from the Ohio Schools Facilities Commission (OSFC).
- The District had \$84,960,137 in expenses related to governmental activities; only \$11,953,187 of these expenses were offset by program specific charges for services and operating grants and contributions. General revenues (primarily taxes and grants from OFSC) of \$103,039,350 were adequate to provide for these programs.
- The general fund had \$71,632,609 in revenues (including other financing sources) and \$74,124,631 in expenditures (including other financing uses). The general fund's fund balance decreased to \$4,112,889 from \$6,604,911.

Using this Annual Financial Report

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 and the classroom facilities fund are by far the most significant funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about 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 2011?” The Statement of Net Assets and Statement of Activities answer this question. These statements include *all assets* and *all liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 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 services, pupil transportation, and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s food service, uniform school supplies, and customer services are reported as business activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major fund begins on page 8. Fund financial statements provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds. The District’s major governmental funds are the general fund and the classroom facilities 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 government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District’s net assets for 2011 compared to 2010:

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	\$ 129,043,353	\$ 104,535,717	\$ 689,889	\$ 809,187	\$ 129,733,242	\$ 105,344,904
Capital assets, net	30,323,422	26,012,971	75,001	108,001	30,398,423	26,120,972
Total Assets	159,366,775	130,548,688	764,890	917,188	160,131,665	131,465,876
LIABILITIES						
Current and other liabilities	42,436,681	40,914,602	155,125	200,132	\$ 42,591,806	\$ 41,114,734
Long-term liabilities:						
Due within one year	6,030,479	5,243,013	5,601	6,156	6,036,080	5,249,169
Due in more than one year	46,692,953	50,216,811	87,741	96,445	46,780,694	50,313,256
Total Liabilities	95,160,113	96,374,426	248,467	302,733	95,408,580	96,677,159
NET ASSETS						
Invested in capital assets, net of related debt	15,581,829	13,871,714	75,001	108,001	15,656,830	13,979,715
Restricted	35,884,347	8,668,214	-	-	35,884,347	8,668,214
Unrestricted	12,740,486	11,634,334	441,422	506,454	13,181,908	12,140,788
Total Net Assets	\$ 64,206,662	\$ 34,174,262	\$ 516,423	\$ 614,455	\$ 64,723,085	\$ 34,788,717

Current and other assets of governmental activities increased \$24,507,636. Capital assets increased by \$4,310,451. The increase in current assets is mainly due to an increase in intergovernmental receivables of \$19,931,521 due to the District’s participation in the Classroom Facilities Assistance Program offered by the Ohio Schools Facilities Commission (OSFC). The increase in capital assets is mainly due to the District’s school building projects.

The net assets of the District’s business-type activities decreased by \$98,032 or 16.0 percent.

Table 2 shows the changes in net assets for fiscal year 2011 compared to 2010.

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Charges for services	\$ 1,035,905	\$ 918,336	\$ 1,089,284	\$1,159,420	\$ 2,125,189	\$ 2,077,756
Operating grants and contributions	10,917,282	8,661,901	2,026,857	2,094,721	12,944,139	10,756,622
Total Program Revenues	11,953,187	9,580,237	3,116,141	3,254,141	15,069,328	12,834,378
General Revenues:						
Property taxes	41,372,259	40,035,131	-	-	41,372,259	40,035,131
Municipal income taxes	5,530,287	5,232,280	-	-	5,530,287	5,232,280
Grants and entitlements	30,853,230	31,539,926	-	-	30,853,230	31,539,926
Grant from OSFC for School Construction	24,735,683	-	-	-	24,735,683	-
Payment in Lieu of Taxes	63,096	58,214	-	-	63,096	58,214
Investment income	384,997	244,143	100	222	385,097	244,365
All other revenues	99,798	65,583	32,741	26,607	132,539	92,190
Total General Revenues	103,039,350	77,175,277	32,841	26,829	103,072,191	77,202,106
Total Revenues	114,992,537	86,755,514	3,148,982	3,280,970	118,141,519	90,036,484
EXPENSES						
Program Expenses:						
Instruction:						
Regular	29,400,824	29,897,814	-	-	29,400,824	29,897,814
Special	15,850,323	16,347,412	-	-	15,850,323	16,347,412
Vocational	1,113,993	1,236,761	-	-	1,113,993	1,236,761
Adult/Continuing	151,581	153,632	-	-	151,581	153,632
Other	61,117	253,532	-	-	61,117	253,532
Supporting Services:						
Pupils	4,659,136	4,541,877	-	-	4,659,136	4,541,877
Instructional Staff	6,802,144	5,846,569	-	-	6,802,144	5,846,569
Board of Education	51,915	61,406	-	-	51,915	61,406
Administration	5,285,593	5,245,661	-	-	5,285,593	5,245,661
Fiscal Services	1,996,702	1,977,032	-	-	1,996,702	1,977,032
Business	674,104	814,625	-	-	674,104	814,625
Operation and Maintenance of Plant	7,749,641	8,052,726	-	-	7,749,641	8,052,726
Pupil Transportation	5,057,123	4,584,065	-	-	5,057,123	4,584,065
Central	1,812,798	1,633,202	-	-	1,812,798	1,633,202
Operation of Non-Instructional Services	1,076,841	982,236	-	-	1,076,841	982,236
Extracurricular Activities	1,114,355	1,116,742	-	-	1,114,355	1,116,742
Interest and Fiscal Charges	2,101,947	875,110	-	-	2,101,947	875,110
Food Service	-	-	2,505,439	2,619,356	2,505,439	2,619,356
Uniform School Supplies	-	-	17,820	12,816	17,820	12,816
Customer Services	-	-	723,755	811,241	723,755	811,241
Total Expenses	84,960,137	83,620,402	3,247,014	3,443,413	88,207,151	87,063,815
Change in Net Assets before Transfers	30,032,400	3,135,112	(98,032)	(162,443)	29,934,368	2,972,669
Transfers	-	(12,000)	-	12,000	-	-
Change in Net Assets	30,032,400	3,123,112	(98,032)	(150,443)	29,934,368	2,972,669
Net Assets - Beginning of Year	34,174,262	31,051,150	614,455	764,898	34,788,717	31,816,048
Net Assets - End of Year	\$ 64,206,662	\$34,174,262	\$ 516,423	\$ 614,455	\$ 64,723,085	\$34,788,717

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 36.0 percent of revenues for governmental activities for the District in fiscal year 2011. General grants and entitlements represented 26.8 percent of governmental activity revenue in fiscal year 2011. A Grant from OSFC for school construction represented 21.5 percent of governmental activity revenue in fiscal year 2011.

Instruction comprises 54.8 percent of governmental program expenses. Pupils and Instructional Staff comprised 13.5 percent; Board of Education, Administration, Fiscal Services, and Business comprised 9.4 percent; Operations and Maintenance of Plant comprised 9.1 percent; and Pupil Transportation comprised 5.9 percent of governmental program expenses. Interest and fiscal charges expenses were 2.5 percent of governmental program expenses. Most of the interest and fiscal charges expense was attributable to outstanding debt issues previously approved by the residents of the District to fund capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services for 2011 and 2010. Table 3 shows the total cost for services for governmental activities and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3 - Governmental Activities

	Total Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2011	Net Cost of Services 2010
Instruction	\$ 46,577,838	\$ 47,889,151	\$ 39,972,075	\$ 43,174,052
Supporting Services:				
Pupils and Instructional Staff	11,461,280	10,388,446	8,435,345	7,498,428
Board of Education, Administration, Fiscal Services, and Business	8,008,314	8,098,724	7,590,500	7,537,221
Operation and Maintenance of Plant	7,749,641	8,052,726	7,694,657	7,994,682
Pupil Transportation	5,057,123	4,584,065	4,938,512	4,486,275
Central	1,812,798	1,633,202	1,801,994	1,621,930
Operation of Non-Instructional Services	1,076,841	982,236	46,750	(7,569)
Extracurricular Activities	1,114,355	1,116,742	827,729	860,036
Interest and fiscal charges	2,101,947	875,110	1,699,388	875,110
Total cost of service	<u>\$ 84,960,137</u>	<u>\$ 83,620,402</u>	<u>\$ 73,006,950</u>	<u>\$ 74,040,165</u>

The dependence upon general revenues for governmental activities is apparent. Over 85.9 percent of governmental activities are supported through taxes and other general revenues. In fiscal year 2011, other general revenues are mostly comprised of grants and entitlements along with the District's recognition of revenue from the OSFC's Classroom Facilities Assistance Program. For all governmental activities, general revenue support is 89.6 percent of total governmental revenues. The community, as a whole, is the primary support for the District.

Business Type Activities

Business-type activities include the food service operation, the sale of uniform school supplies, and an automotive shop customer service operation. These programs had revenues of \$3,148,982 and expenses of \$3,247,014 in fiscal year 2011. All three activities experienced decreases in net assets during fiscal year 2011. Reviews of these operations, including consideration of price adjustments and expense control is ongoing.

The School District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$93,820,264 and expenditures of \$94,769,909 (including other financing sources and uses). The net decrease in fund balances (including Other Financing Sources and Uses) of \$949,645 was due in part, to the District's revenues remaining flat compared to expenditures. Due to the state of public school funding in Ohio, the current system does not allow for built in adjustments to revenue streams as operating costs increase. Ohio school districts are generally required to place funding issues on the ballot every three to five years in order to increase funding for the increased cost of doing business.

Due to an increase in taxes and a decrease in intergovernmental revenue coupled with increases in expenditures, the general fund experienced a net decrease in fund balance of \$2,492,022. The classroom facilities fund netted a decrease of \$292,608 in fund balance due to increased capital outlay as a result of the District's school building projects. All other governmental funds netted an increase in fund balance of \$1,834,985 in total.

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 2011, the District amended its general fund budget numerous times, none being significant. 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, the total final budget basis revenue was increased to \$77,845,389 from the total original budget estimates of \$74,966,445, due to an increase in anticipated tax revenues. Actual tax revenues were higher than the final amended budget; however the actual intergovernmental revenues were significantly lower than anticipated.

The final appropriations did not experience a change from the original appropriations of \$75,301,820. The District did perform several legally approved transfers within line items of the general fund.

The District's ending unobligated cash balance was \$4,777,934 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$30,398,423 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles of which, \$30,323,422 represented governmental activities. Table 4 shows fiscal year 2011 balances compared to 2010.

Table 4 - Capital Assets at June 30 (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,052,789	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789	\$ 2,052,789
Construction in progress	6,572,497	1,232,142	-	-	6,572,497	1,232,142
Land Improvements	992,557	1,001,182	-	-	992,557	1,001,182
Buildings and Improvements	19,913,397	20,595,672	10,950	11,250	19,924,347	20,606,922
Furniture and Equipment	227,386	341,598	41,548	67,818	268,934	409,416
Vehicles	564,796	789,588	22,503	28,933	587,299	818,521
Total Capital Assets	\$ 30,323,422	\$ 26,012,971	\$ 75,001	\$ 108,001	\$ 30,398,423	\$ 26,120,972

For fiscal year 2011, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and textbooks. For fiscal 2011, this amounted to \$952,860 for each set aside. For fiscal year 2011, the District had qualifying disbursements or offsets exceeding these requirements. The District has budgeted to meet these requirements.

Additional information on capital asset policies and activity are contained in Notes 2 and 12 of the basic financial statements.

Debt

At June 30, 2011, the District had \$46,874,382 in bonds and long-term notes outstanding with \$3,162,454 due within one year. Table 5 summarizes the District's bonds and notes outstanding.

Table 5 - Outstanding Debt at Year End

	Governmental Activities	
	2011	2010
General Obligation Bonds:		
Energy Conservation Bonds	\$ 2,404,600	\$ 2,643,900
School and Library Refunding	2,279,954	3,944,954
Classroom Facilities and School Improvements	39,239,828	40,299,828
Long-Term Tax Anticipation Notes	2,950,000	3,615,000
Total Outstanding Debt	\$ 46,874,382	\$ 50,503,682

The energy conservation bonds were issued to replace heating systems and lighting systems at several schools throughout the District. Both bonds will be repaid in 15 years from the bond retirement fund.

In 2004, the District issued \$6.5 million, ten year tax anticipation notes for the renovation and equipping of three school buildings, parking lot resurfacing and track resurfacing.

In 2006, the District issued bonds to refund most of the school refunding and library improvement issues.

In 2010, the District issued bonds to finance multiple school building construction and improvement projects.

At June 30, 2011, the District's overall legal debt margin was \$31,055,263 with an unvoted debt margin of \$746,770. The District maintains an A-1 bond rating.

Additional information on debt policies and activity are contained in Notes 2 and 13 of the basic financial statements.

For the Future

A ten-year \$5.6 million emergency operating levy was passed by voters in November, 2008. The positive impact of that additional revenue has been offset by weakening economic conditions the last three years. Property tax collections have suffered due to increases in delinquencies and foreclosures. Additionally, property values, as determined by the Cuyahoga County Auditor for tax collections, were reduced on average by 10% in 2009. Income tax collections dropped by nearly 15% since the 2007-08 fiscal year. Due to historically low available market rates, annual interest earnings dropped by nearly \$1 million in that same time frame.

State Funding for K-12 education remained relatively flat for the FY10-11 biennium. However, this was only accomplished through use of \$8 billion of "one-time" money, the largest amount being fiscal stabilization funding from the federal government's fiscal stimulus package.

Additional federal monies are not expected for the State's next budget cycle, which begins July 1, 2011. As the State's economy has not yet fully recovered from the recession, a significant reduction in funding for K-12 education is expected.

In order to address the financial difficulties, the District has made spending reductions of \$4.7 million over the last three years. It is anticipated an operating levy will be placed on the ballot in 2011 in conjunction with further expenditure reductions.

The Euclid City School District has committed itself to financial excellence for many years. The District has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting since 1997.

In addition, the District's system of budget and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional information, contact Stephen Vasek, Treasurer at Euclid City School District, 651 East 222 Street, Euclid, Ohio 44123-2090 or e-mail at svasek@euclid.k12.oh.us

Basic Financial Statements

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 32,525,037	\$ 657,128	\$ 33,182,165
Investments	28,824,161	-	28,824,161
Income Taxes Receivable	462,687	-	462,687
Property Taxes Receivable	45,898,099	-	45,898,099
Accounts Receivable	307,302	-	307,302
Accrued Interest Receivable	117,184	-	117,184
Intergovernmental Receivable	20,389,323	-	20,389,323
Materials and Supplies Inventory	107,828	32,513	140,341
Prepaid Items	100,105	248	100,353
Deferred Charges	311,627	-	311,627
Nondepreciable Capital Assets	8,625,286	-	8,625,286
Depreciable Capital Assets, Net	21,698,136	75,001	21,773,137
Total Assets	<u>159,366,775</u>	<u>764,890</u>	<u>160,131,665</u>
LIABILITIES			
Accounts Payable	2,411,579	1,274	2,412,853
Accrued Wages and Benefits	6,305,567	30,153	6,335,720
Intergovernmental Payable	2,269,974	120,871	2,390,845
Accrued Interest Payable	566,809	-	566,809
Matured Compensated Absences Payable	5,902	2,827	8,729
Deferred Revenue	30,876,850	-	30,876,850
Long-term Liabilities:			
Due within one year	6,030,479	5,601	6,036,080
Due in more than one year	46,692,953	87,741	46,780,694
Total Liabilities	<u>95,160,113</u>	<u>248,467</u>	<u>95,408,580</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	15,581,829	75,001	15,656,830
Restricted:			
Capital Projects	28,017,046	-	28,017,046
Debt Service	5,388,022	-	5,388,022
State Funded Programs	79,387	-	79,387
Federally Funded Programs	865,853	-	865,853
Student Activities	49,413	-	49,413
Other Purposes	208,491	-	208,491
Set-Asides	1,276,135	-	1,276,135
Unrestricted	12,740,486	441,422	13,181,908
Total Net Assets	<u>\$ 64,206,662</u>	<u>\$ 516,423</u>	<u>\$ 64,723,085</u>

See accompanying notes to the basic financial statements.

Statement of Activities

For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction:						
Regular Instruction	\$ 29,400,824	\$ 607,576	\$ 3,185,877	\$ (25,607,371)	\$ -	\$ (25,607,371)
Special Instruction	15,850,323	206	2,614,230	(13,235,887)	-	(13,235,887)
Vocational Instruction	1,113,993	-	-	(1,113,993)	-	(1,113,993)
Adult/Continuing Instruction	151,581	-	163,454	11,873	-	11,873
Other Instruction	61,117	27	34,393	(26,697)	-	(26,697)
Supporting Services:						
Pupils	4,659,136	-	468,255	(4,190,881)	-	(4,190,881)
Instructional Staff	6,802,144	-	2,557,680	(4,244,464)	-	(4,244,464)
Board of Education	51,915	-	-	(51,915)	-	(51,915)
Administration	5,285,593	1,194	316,433	(4,967,966)	-	(4,967,966)
Fiscal Services	1,996,702	-	100,187	(1,896,515)	-	(1,896,515)
Business	674,104	-	-	(674,104)	-	(674,104)
Operation and Maintenance of Plant	7,749,641	32,201	22,783	(7,694,657)	-	(7,694,657)
Pupil Transportation	5,057,123	108,075	10,536	(4,938,512)	-	(4,938,512)
Central	1,812,798	-	10,804	(1,801,994)	-	(1,801,994)
Operation of Non-Instructional Services	1,076,841	-	1,030,091	(46,750)	-	(46,750)
Extracurricular Activities	1,114,355	286,626	-	(827,729)	-	(827,729)
Interest and Fiscal Charges	2,101,947	-	402,559	(1,699,388)	-	(1,699,388)
Total Governmental activities	84,960,137	1,035,905	10,917,282	(73,006,950)	-	(73,006,950)
Business-type activities:						
Food Service	2,505,439	432,577	2,026,857	-	(46,005)	(46,005)
Uniform School Supplies	17,820	-	-	-	(17,820)	(17,820)
Customer Services	723,755	656,707	-	-	(67,048)	(67,048)
Total Business-type activities	3,247,014	1,089,284	2,026,857	-	(130,873)	(130,873)
Totals	\$ 88,207,151	\$ 2,125,189	\$ 12,944,139	(73,006,950)	(130,873)	(73,137,823)
General Revenues:						
Property and Other Local Taxes levied for:						
General Purposes				35,812,723	-	35,812,723
Debt Service				4,712,476	-	4,712,476
Capital Outlay				847,060	-	847,060
Income Taxes levied for:						
General Purposes				5,530,287	-	5,530,287
Payment in Lieu of Taxes				63,096	-	63,096
Grants & Entitlements not restricted to specific programs				30,853,230	-	30,853,230
Grant from the Ohio Schools Facilities Commission for:						
School Construction				24,735,683	-	24,735,683
Investment Income				384,997	100	385,097
All Other Revenues				99,798	32,741	132,539
Total General Revenues				103,039,350	32,841	103,072,191
Change in Net Assets				30,032,400	(98,032)	29,934,368
Net Assets - Beginning of Year				34,174,262	614,455	34,788,717
Net Assets - End of Year				\$ 64,206,662	\$ 516,423	\$ 64,723,085

See accompanying notes to the basic financial statements.

**Balance Sheet
Governmental Funds**

June 30, 2011

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 5,381,054	\$ 12,426,618	\$ 8,024,279	\$ 25,831,951
Investments	-	23,773,571	4,050,590	27,824,161
Materials and Supplies Inventory	107,828	-	-	107,828
Accrued Interest Receivable	-	87,547	20,485	108,032
Accounts Receivable	307,302	-	-	307,302
Interfund Receivable	269,153	-	122,503	391,656
Intergovernmental Receivable	58,000	20,113,215	218,108	20,389,323
Prepaid Items	93,810	-	6,295	100,105
Income Taxes Receivable	462,687	-	-	462,687
Property Taxes Receivable	39,645,556	-	6,252,543	45,898,099
Total Assets	<u>\$ 46,325,390</u>	<u>\$ 56,400,951</u>	<u>\$ 18,694,803</u>	<u>\$ 121,421,144</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 249,422	\$ 2,108,165	\$ 51,309	\$ 2,408,896
Accrued Wages and Benefits	5,919,982	-	378,162	6,298,144
Intergovernmental Payable	1,799,755	-	67,301	1,867,056
Matured Compensated Absences Payable	5,902	-	-	5,902
Interfund Payable	-	-	391,656	391,656
Deferred Revenue	34,237,440	20,000,271	5,301,989	59,539,700
Total Liabilities	<u>42,212,501</u>	<u>22,108,436</u>	<u>6,190,417</u>	<u>70,511,354</u>
Fund Balances:				
Nonspendable	201,638	-	6,295	207,933
Restricted	-	34,292,515	12,362,820	46,655,335
Committed	213,035	-	38,192	251,227
Assigned	1,554,510	-	157,396	1,711,906
Unassigned	2,143,706	-	(60,317)	2,083,389
Total Fund Balances	<u>4,112,889</u>	<u>34,292,515</u>	<u>12,504,386</u>	<u>50,909,790</u>
Total Liabilities and Fund Balances	<u>\$ 46,325,390</u>	<u>\$ 56,400,951</u>	<u>\$ 18,694,803</u>	<u>\$ 121,421,144</u>

See accompanying notes to the basic financial statements.

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities**

June 30, 2011

Total Governmental Funds Balance \$ 50,909,790

*Amounts reported for Governmental Activities in the Statement of Net Assets
are different because:*

Capital Assets used in Governmental Activities (excluding internal service fund
capital assets) are not financial resources and, therefore, are not reported in the funds 30,314,826

Other long-term assets are not available to pay for current-period expenditures
and, therefore, are deferred in the funds:

Property taxes	\$ 8,662,579	
Intergovernmental	20,000,271	
Total		28,662,850

Internal Service funds are used by management to charge the costs
of certain activities, such as insurance to individual funds. The assets
and liabilities of the Internal Service funds are included in Governmental
Activities in the Statement of Net Assets. 5,742,380

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	(43,924,382)	
Tax anticipation notes payable	(2,950,000)	
Bond accretion	(610,023)	
Unamortized bond premium	(534,542)	
Deferred charges related to debt issuance	311,627	
Compensated absences	(2,657,045)	
Retirement payout liability	(492,010)	
Accrued interest payable	(566,809)	
Total		(51,423,184)

Net Assets of Governmental Activities \$ 64,206,662

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**

For the Fiscal Year Ended June 30, 2011

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 40,134,438	\$ -	\$ 5,399,662	\$ 45,534,100
Intergovernmental	30,687,625	4,735,412	11,161,302	46,584,339
Interest	33,824	249,048	73,539	356,411
Tuition	461,653	-	-	461,653
Extracurricular Activities	78,772	-	193,301	272,073
Charges for Services	104,477	-	-	104,477
Transportation Fees	108,075	-	14,340	122,415
Miscellaneous	17,738	10,000	46,319	74,057
Total Revenues	<u>71,626,602</u>	<u>4,994,460</u>	<u>16,888,463</u>	<u>93,509,525</u>
EXPENDITURES				
Current:				
Instruction:				
Regular Instruction	27,595,625	-	2,263,895	29,859,520
Special Instruction	13,686,510	-	2,463,274	16,149,784
Vocational Instruction	1,122,036	-	-	1,122,036
Adult/Continuing Instruction	-	-	151,728	151,728
Other Instruction	43,318	-	35,197	78,515
Supporting Services:				
Pupils	4,414,668	-	365,465	4,780,133
Instructional Staff	4,262,302	-	2,547,881	6,810,183
Board of Education	54,028	-	-	54,028
Administration	5,070,678	-	277,322	5,348,000
Fiscal Services	1,935,254	-	61,448	1,996,702
Business	676,803	-	25,444	702,247
Operation and Maintenance of Plant Services	7,719,826	-	121,285	7,841,111
Pupil Transportation	4,726,376	-	193,623	4,919,999
Central	1,585,767	-	86,258	1,672,025
Operation of Non-Instructional Services:				
Community Services	42,495	-	1,052,684	1,095,179
Extracurricular Activities	884,213	-	242,143	1,126,356
Capital Outlay	-	5,287,068	57,948	5,345,016
Debt Service:				
Principal Retirement	-	-	3,629,300	3,629,300
Interest and Fiscal Charges	-	-	1,783,315	1,783,315
Total Expenditures	<u>73,819,899</u>	<u>5,287,068</u>	<u>15,358,210</u>	<u>94,465,177</u>
Excess of Revenues Over Expenditures	<u>(2,193,297)</u>	<u>(292,608)</u>	<u>1,530,253</u>	<u>(955,652)</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	6,007	-	-	6,007
Transfers In	-	-	304,732	304,732
Transfers Out	(304,732)	-	-	(304,732)
Total Other Financing Sources (Uses)	<u>(298,725)</u>	<u>-</u>	<u>304,732</u>	<u>6,007</u>
Net Change in Fund Balances	<u>(2,492,022)</u>	<u>(292,608)</u>	<u>1,834,985</u>	<u>(949,645)</u>
Fund Balances - Beginning of Year, Restated	6,604,911	34,585,123	10,669,401	51,859,435
Fund Balances - End of Year	<u>\$ 4,112,889</u>	<u>\$ 34,292,515</u>	<u>\$ 12,504,386</u>	<u>\$ 50,909,790</u>

See accompanying notes to the basic financial statements.

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances-Total Governmental Funds \$ (949,645)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 5,726,939	
Depreciation	(1,404,240)	
Total		4,322,699

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

Taxes	1,431,542	
Intergovernmental	20,000,271	
Total		21,431,813

Repayment of bond principal is an expenditure in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,629,300

Premiums on bonds issued are recognized as revenues in the Governmental funds, however, they are amortized over the life of the issuance in the Statement of Activities. 170,719

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. (116,861)

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (144,875)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	512,388	
Retirement payout liability	86,651	
Bond accretion	(199,029)	
Total		400,010

Internal Service funds are used by management to charge costs to certain activities, such as insurance to individual funds. The net revenue (expense) of Internal Service funds are reported in the Governmental Activities. 1,289,240

Change in Net Assets of Governmental Activities **\$ 30,032,400**

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (Non-GAAP Basis) –
General Fund
For the Fiscal Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes	\$ 34,666,445	\$ 37,545,389	\$ 40,228,330	\$ 2,682,941
Intergovernmental	38,999,678	38,999,678	30,673,375	(8,326,303)
Interest	43,514	43,514	34,224	(9,290)
Tuition	565,194	565,194	444,527	(120,667)
Charges for Services	47,087	47,087	37,034	(10,053)
Transportation Fees	114,481	114,481	90,040	(24,441)
Classroom Materials and Fees	119,013	119,013	93,604	(25,409)
Miscellaneous	150,033	150,033	396,721	246,688
Total Revenues	<u>74,705,445</u>	<u>77,584,389</u>	<u>71,997,855</u>	<u>(5,586,534)</u>
Expenditures				
Current:				
Instruction				
Regular	27,422,596	27,608,952	27,557,101	51,851
Special	13,656,653	13,776,447	13,767,993	8,454
Vocational	1,673,266	1,192,462	1,191,076	1,386
Other	212,159	72,408	71,003	1,405
Supporting Services				
Pupils	4,196,773	4,319,519	4,318,471	1,048
Instructional Staff	4,390,643	4,286,000	4,236,878	49,122
Board of Education	93,542	60,420	54,744	5,676
Administration	5,106,879	5,232,033	5,133,131	98,902
Fiscal Services	2,146,737	2,184,859	1,994,742	190,117
Business	859,660	821,568	697,340	124,228
Operation and Maintenance of Plant Services	8,241,350	8,115,910	7,904,750	211,160
Pupil Transportation	4,377,948	4,771,518	4,698,903	72,615
Central	1,477,151	1,609,380	1,525,382	83,998
Operation of Non-Instructional Services	50,143	33,143	31,818	1,325
Extracurricular Activities	781,320	779,121	768,732	10,389
Total Expenditures	<u>74,686,820</u>	<u>74,863,740</u>	<u>73,952,064</u>	<u>911,676</u>
Excess of Revenues Over Expenditures	<u>18,625</u>	<u>2,720,649</u>	<u>(1,954,209)</u>	<u>(4,674,858)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	11,000	11,000	6,007	(4,993)
Advances In	250,000	250,000	26,225	(223,775)
Advances Out	(50,000)	(50,000)	(14,656)	35,344
Transfers Out	(365,000)	(365,000)	(304,732)	60,268
Contingencies	(200,000)	(23,080)	-	23,080
Total Other Financings Sources (Uses)	<u>(354,000)</u>	<u>(177,080)</u>	<u>(287,156)</u>	<u>(110,076)</u>
Net Change in Fund Balance	(335,375)	2,543,569	(2,241,365)	(4,784,934)
Fund Balance - Beginning of Year	5,176,598	5,176,598	5,176,598	-
Prior Year Encumbrances Appropriated	1,400,340	1,400,340	1,400,340	-
Fund Balance - End of Year	<u>\$ 6,241,563</u>	<u>\$ 9,120,507</u>	<u>\$ 4,335,573</u>	<u>\$ (4,784,934)</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Assets
Proprietary Funds**

June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 657,128	\$ 6,693,086
Investments	-	1,000,000
Materials and Supplies Inventory	32,513	-
Accrued Interest Receivable	-	9,152
Prepaid Items	248	-
Total Current Assets	<u>689,889</u>	<u>7,702,238</u>
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets, Net of Depreciation	75,001	8,596
Total Noncurrent Assets	<u>75,001</u>	<u>8,596</u>
Total Assets	<u>764,890</u>	<u>7,710,834</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,274	2,683
Accrued Wages and Benefits	30,153	7,423
Compensated Absences Payable	5,601	-
Intergovernmental Payable	120,871	402,918
Matured Compensated Absences Payable	2,827	-
Workers' Compensation Claims Payable	-	151,253
Insurance Claims Payable	-	1,096,600
Total Current Liabilities	<u>160,726</u>	<u>1,660,877</u>
Noncurrent Liabilities:		
Compensated Absences Payable	87,741	-
Workers' Compensation Claims Payable	-	307,577
Total Noncurrent Liabilities	<u>87,741</u>	<u>307,577</u>
Total Liabilities	<u>248,467</u>	<u>1,968,454</u>
NET ASSETS		
Invested in Capital Assets	75,001	8,596
Unrestricted	441,422	5,733,784
Total Net Assets	<u>\$ 516,423</u>	<u>\$ 5,742,380</u>

See accompany notes to the basic financial statements.

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds**

For the Fiscal Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Food Services	\$ 432,577	\$ -
Charges for Services	7,754	11,027,209
Miscellaneous	32,741	17,325
Extracurricular Activities	-	9,044
Classroom Materials and Fees	-	89,091
Tuition	648,642	-
Transportation Fees	311	938
Total Operating Revenues	1,122,025	11,143,607
OPERATING EXPENSES		
Salaries	1,373,391	51,717
Fringe Benefits	584,715	9,460,116
Purchased Services	48,940	186,257
Materials and Supplies	1,201,924	47,791
Depreciation	33,000	12,248
Other	5,044	124,824
Total Operating Expenses	3,247,014	9,882,953
Operating Income (Loss)	(2,124,989)	1,260,654
NON-OPERATING REVENUES		
Interest	100	28,586
Intergovernmental	1,787,429	-
Donated Commodities	239,428	-
Total Non-operating Revenues	2,026,957	28,586
Change in Net Assets	(98,032)	1,289,240
Net Assets - Beginning of Year	614,455	4,453,140
Net Assets - End of Year	\$ 516,423	\$ 5,742,380

See accompany notes to the basic financial statements.

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,105,594	\$ 11,143,607
Other Cash Receipts	16,431	-
Cash Payments to Employees for Services	(1,387,914)	(44,294)
Cash Payments for Employee Benefits	(613,864)	(9,680,748)
Cash Payments for Goods and Services	(1,035,121)	(231,537)
Cash Payments for Other Operating Expenses	(5,044)	(124,824)
Net Cash Provided by (Used in) Operating Activities	<u>(1,919,918)</u>	<u>1,062,204</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	1,787,429	-
Advances Out	-	(6,225)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,787,429</u>	<u>(6,225)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from sales and maturities of investments	-	2,710,229
Interest on Investments	100	31,784
Net Cash Provided by (Used in) Investing Activities	<u>100</u>	<u>2,742,013</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(132,389)	3,797,992
Cash and Cash Equivalents - Beginning of Year	789,517	2,895,094
Cash and Cash Equivalents - End of Year	<u><u>\$ 657,128</u></u>	<u><u>\$ 6,693,086</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (2,124,989)	\$ 1,260,654
Adjustments:		
Depreciation	33,000	12,248
Federal Donated Commodities	239,428	-
(Increase) Decrease in Assets:		
Materials and Supplies Inventory	(13,158)	-
Prepaid Items	67	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(10,594)	2,511
Accrued Wages and Benefits	(4,930)	7,423
Compensated Absences Payable	(9,259)	-
Retainage Payable	(334)	-
Intergovernmental Payable	(29,149)	(85,568)
Claims Payable	-	(135,064)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (1,919,918)</u></u>	<u><u>\$ 1,062,204</u></u>

Schedule of Noncash Non-Capital Financing Activities

During the year, the Food Service enterprise fund received donated commodities of \$239,428.

See accompanying notes to the basic financial statements.

**Statement of Assets and Liabilities
Fiduciary Funds**

June 30, 2011

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 37,652
Liabilities	
Due to Students	\$ 37,652

See accompanying notes to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**Notes to the Basic Financial Statements
June 30, 2011**

NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Euclid 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 is a city district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provisions of public education to residents of the District.

Average daily membership as of June 30, 2011 was 5,932. The District employed 1,095 certified and non-certified employees.

Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. 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.

Nonpublic Schools – Within the District’s boundaries, Our Lady of Lake, St. John of the Cross, and St. Robert-St. William schools are operated through the Cleveland Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity of these state monies by the District is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the District is financially accountable. 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. The District has no component units.

The District is associated with two organizations which are defined as a jointly governed organization and a related organization. The Ohio School’s Council Association is a jointly governed organization and the Euclid Public Library is a related organization. The jointly governed organization is presented in Note 18 and the related organization is presented in Note 19 to the basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

A. **Fund Accounting**

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the following categories: governmental, proprietary and fiduciary.

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 purpose for which they must be used. Current assets are assigned to the fund from 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.

Classroom Facilities Fund – This fund is provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's enterprise funds account for the provision of food services, uniform school supplies, child care and services to the general public financed by user charges. The District has no major enterprise funds.

Internal Service Funds – Internal service funds 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 governmental units, on a cost-reimbursement basis. The internal service funds of the District account for two self-insurance programs and purchase of services and equipment for internal use. The two self-insurance programs provide medical, dental and vision benefits to employees along with workers' compensation claims

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 only agency fund is to account for student activities.

B. 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. An exception to this general rule is that interfund services provided and used are not eliminated in the process of consolidation. 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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, with certain limited exceptions. 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. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

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 funds 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 fund net assets. The statement of revenues, expenses, and 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 resources measurement focus as they do not report operations.

C. 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. The proprietary funds and the fiduciary funds also use the accrual basis of accounting

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 9). 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 non-exchange transactions must also be available before it can be recognized.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Basis of Accounting (Continued)

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.

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

Property taxes and compensation payments from a tax increment financing (TIF) agreement for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

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.

D. Cash and Cash Equivalents

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During the fiscal year 2011, investments were limited to U.S. agency securities, commercial paper, nonnegotiable certificates of deposit and 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.

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 share price which is the price the investment could be sold for on June 30, 2011.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$33,824, which includes \$404 assigned from the other District funds.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Cash and Cash Equivalents (Continued)

For presentation on the financial statement, investments of the cash management pool and investments with an original maturity 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 that are not purchased from the pool are reported as investments.

E. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by legal requirements. See Note 22 for additional information regarding set-asides. As of June 30, 2011, the District did not have any restricted assets.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

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 are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds types when used.

Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

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's capitalization threshold for all capital assets is \$5,000. 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 capitalized. Interest incurred during the construction of capital assets is not capitalized.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Capital Assets (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 asset. 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	20 years	N/A
Buildings and Improvements	10-50 years	N/A
Furniture and Equipment	5-10 years	3-10 years
Vehicles	10 years	N/A

I. Interfund Balances

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

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned by all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the 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.

K. Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, premiums are received in the year bonds are issued.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

L. **Bond Issuance Costs**

Bond issuance costs for underwriting fees for the classroom facilities and school improvement bonds, series 2010 are being amortized using the straight-line method over the life of the agreement on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On fund financial statements, bond issuance costs are disbursed in the year the bonds are issued.

M. **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, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current expendable available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

N. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

N. **Fund Balance**

Assigned – Amounts in the assigned fund balance classification are intended to be used the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the District’s Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. **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 adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District passed legislation to create a restriction to net assets for budget stabilization. This is the only net assets restriction imposed through enabling legislation. The net assets restricted for state and federally fund programs and student activities have external and internal restrictions imposed by state and federal governments along with the District’s Board of Education.

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

P. **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 and 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. Any revenues and expenses not meeting the definition of operating are reported as non-operating.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Q. Interfund Transactions

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.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

S. Estimates

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

T. Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary 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. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund, function and object level for the general fund and the fund level for all additional funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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. Public hearings are publicized and conducted to obtain taxpayer's comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. The budget includes proposed expenditures and the means of financing for all funds. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Accounting (Continued)

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's Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final amended certificates of estimated resources issued during fiscal year 2011.

Appropriations

Upon receipt from the County Auditor of an amended Certificate of Estimated Resources based on final assessed values and tax rates or a certification saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation or alter total function or object level appropriations within the general fund or fund level for all other funds must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the 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. Expenditures plus encumbrances may not legally exceed appropriations. On the governmental fund financial statements, encumbrances outstanding at year end are reported as part of the respective fund balance classification for subsequent year expenditures. Encumbrances outstanding at year end are not reported on government-wide financial statements.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

T. **Budgetary Accounting (Continued)**

Lapsing of Appropriations

At the close of each 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 reappropriated.

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

Accountability

The following funds had negative fund balances at June 30, 2011:

	Deficit
<i><u>Special Revenue Funds</u></i>	
Vocational Education Enhancement	\$ 4,310
School District Fiscal Stabilization	54,543
Reducing Class Size	1,373
 <i><u>Capital Projects Fund</u></i>	
Vocational Education Equipment	91
 <i><u>Enterprise Fund</u></i>	
Customer Services	66,854

The fund deficits in the special revenue funds, the capital projects fund, and the enterprise fund resulted from accrued liabilities. The general fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2011, the District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in the reclassification of fund balances on the District's governmental fund financial statements as described in Note 7.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the District's financial statements.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to when the fund liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures (budgetary basis) rather than as a part of restricted, committed, and assigned fund balances (GAAP) basis;
4. Unrecorded cash represents amounts received but not included as revenue on the budgetary basis operating statements. These amounts are included as revenue on the GAAP basis operating statement; and
5. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance	
GAAP Basis	\$ (2,492,022)
Net Adjustment for Revenue Accruals	671,248
Net Adjustment for Expenditure Accruals	436,765
Funds with Separate Legally Adopted Budgets	(67,774)
Adjustment for Encumbrances	(789,582)
Budget Basis	\$ (2,241,365)

NOTE 6: FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the General Fund, Classroom Facilities Fund, and all other governmental funds are presented below:

Fund Balances	General	Classroom Facilities	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$ 93,810	\$ -	\$ 6,295	\$ 100,105
Inventories	107,828	-	-	107,828
<i>Total Nonspendable</i>	<u>201,638</u>	<u>-</u>	<u>6,295</u>	<u>207,933</u>
<i>Restricted for</i>				
Classroom Facilities Maintenance	-	-	170,299	170,299
Athletics	-	-	49,413	49,413
Auxiliary Services	-	-	65,458	65,458
Information System Improvements	-	-	12,421	12,421
Adult Basic Education	-	-	37,935	37,935
Education Jobs	-	-	289,440	289,440
Race to the Top	-	-	12,396	12,396
Special Education	-	-	190,846	190,846
Technology Improvements	-	-	7,722	7,722
School Improvements	-	-	17,025	17,025
Disadvantaged Children	-	-	305,702	305,702
Debt Service	-	-	5,365,767	5,365,767
Capital Improvements	-	-	1,131,520	1,131,520
Buildings	-	-	4,706,876	4,706,876
Classroom Facilities Project	-	34,292,515	-	34,292,515
<i>Total Restricted</i>	<u>-</u>	<u>34,292,515</u>	<u>12,362,820</u>	<u>46,655,335</u>
<i>Committed to</i>				
Termination Benefits	213,035	-	-	213,035
Special Programs	-	-	38,192	38,192
<i>Total Committed</i>	<u>213,035</u>	<u>-</u>	<u>38,192</u>	<u>251,227</u>
<i>Assigned to</i>				
Fiscal Year 2012 Appropriations	1,150,125	-	-	1,150,125
Property Replacement	-	-	157,396	157,396
Other Purposes	404,385	-	-	404,385
<i>Total Assigned</i>	<u>1,554,510</u>	<u>-</u>	<u>157,396</u>	<u>1,711,906</u>
<i>Unassigned (Deficit)</i>	2,143,706	-	(60,317)	2,083,389
Total Fund Balances	<u><u>\$ 4,112,889</u></u>	<u><u>\$ 34,292,515</u></u>	<u><u>\$ 12,504,386</u></u>	<u><u>\$ 50,909,790</u></u>

NOTE 7: RESTATEMENT OF FUND BALANCES

Fund reclassifications are required in order to report governmental funds in accordance with GASB Statement No. 54. The fund reclassifications had the following effect on the District’s governmental fund balances as previously reported:

	General	Other Governmental Funds
Fund Balance, June 30, 2010	\$ 6,418,547	\$ 10,855,765
Fund Reclassifications:		
Public School Support Fund	38,146	(38,146)
Termination Benefits Fund	148,218	(148,218)
Restated Fund Balance, July 1, 2011	\$ 6,604,911	\$ 10,669,401

The fund reclassifications only impacted the governmental fund balances and did not impact governmental activities net assets.

NOTE 8: DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 8: DEPOSITS AND INVESTMENTS (CONTINUED)

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

1. United States Treasury notes, bills, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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;
4. Bonds or other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or division (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Bankers' acceptances and commercial paper, if training requirements have been met.

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

The following disclosure is based on the criteria described in GASB Statement No. 40, "*Deposits and Investments Risk Disclosures*".

Cash on Hand

At June 30, 2011, the District had \$2,180 in undeposited cash on hand, which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

At June 30, 2011, the carrying amount of the District's deposits was \$31,713,003, (including restricted cash of \$1,276,135 and \$1,900,000 in nonnegotiable certificates of deposit), and the bank balance was \$33,648,256. \$6,780,445 of the District's bank balance was covered by Federal Depository Insurance and \$26,867,811 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

NOTE 8: DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits or collateral securities may not be returned. The District’s policy is to place deposits with major local banks approved by the District’s Board of Education. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC, is held in financial institution 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.

Investments

The District has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The District follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. All investments are in an internal investment pool.

Investments at year end were as follows:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	<u>Credit Rating (*)</u>	<u>Fair Value</u>
STAR Ohio	< 1	AAA	\$ 3,404,634
Commercial Paper	< 1	P1	2,999,350
FFCB	< 1	AAA	2,201,738
FHLB	< 3	AAA	21,723,073
Total Investments			<u>\$ 30,328,795</u>

* Credit rating was obtained from Standard & Poor's.

Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and the District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

The credit risks of the District’s investments are in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

NOTE 8: DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments in commercial paper, Federal Home Loan Bank securities, and Federal Farm Credit Bank securities 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.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has invested 71.6 percent in FHLB securities, 11.2 percent in STAR Ohio, 9.9 percent in commercial paper, and 7.3 percent in FFCB securities.

NOTE 9: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and certain tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are paid annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2010 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2010 is the last year for the collection of tangible personal property taxes from telephone companies. Payments by multi-county taxpayers are due September 20, 2010. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30, 2010; if paid semi-annually, the first payment is due April 30, 2010, with the remainder payable by September 20, 2010.

NOTE 9: PROPERTY TAXES (CONTINUED)

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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2011, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011 was \$5,466,116 in the general fund \$657,372 in the bond retirement fund, and \$293,182 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2010 was \$5,603,570 in the general fund, \$728,390 in the bond retirement fund, and \$302,278 in the permanent improvement capital projects fund.

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

The assessed values upon which fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 734,881,250	97.99%	\$ 731,293,280	97.93%
Public Utility	15,108,400	2.01%	15,476,470	2.07%
Totals	<u>\$ 749,989,650</u>	<u>100.00%</u>	<u>\$ 746,769,750</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$ 89.90		 \$ 89.90	

NOTE 10: INCOME TAXES

The District is the only school district in the State of Ohio with an enacted shared City/School income tax. The shared City income tax, enacted in 1994, is a 0.85 percent City voted income tax of which 0.47 percent is for the District and 0.38 percent for the City of Euclid. Employers are required to withhold income tax on compensation and remit the tax to the City of Euclid. Taxpayers are required to file an annual return with the City of Euclid. The City makes monthly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 11: **RECEIVABLES**

Receivables at June 30, 2011 consisted of property taxes, compensation payments from a TIF agreement, accounts (rent, billings for user charged services, and student fees), intergovernmental grants and interest. All receivables, except for the \$20,113,215 of intergovernmental grants due from the Ohio Schools Facilities Commission (OSFC), 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 fiscal year guarantee of federal funds. The OSFC grant will be collected over the life of the construction project.

A summary of the principal items of intergovernmental receivables follows:

	<u>Governmental Activities</u>
Classroom Facilities	\$ 20,113,215
Adult Basic Education	58,930
Education Jobs	127,400
Race to the Top	20,456
Stimulus Title II - Technology Grants	8,716
Reducing Class Size	2,606
TIF	58,000
Total Intergovernmental Receivables	<u>\$ 20,389,323</u>

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NOTE 12: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789
Construction in Progress	1,232,142	5,340,355	-	6,572,497
<i>Total Capital Assets, not being depreciated:</i>	<u>3,284,931</u>	<u>5,340,355</u>	<u>-</u>	<u>8,625,286</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,539,494	66,024	-	3,605,518
Building and Improvements	54,360,618	7,260	-	54,367,878
Furniture and Equipment	1,662,755	125,300	-	1,788,055
Vehicles	4,478,431	188,000	(167,181)	4,499,250
<i>Total Capital Assets, being depreciated</i>	<u>64,041,298</u>	<u>386,584</u>	<u>(167,181)</u>	<u>64,260,701</u>
Less Accumulated Depreciation:				
Land Improvements	(2,538,312)	(74,649)	-	(2,612,961)
Building and Improvements	(33,764,946)	(689,535)	-	(34,454,481)
Furniture and Equipment	(1,321,157)	(239,512)	-	(1,560,669)
Vehicles	(3,688,843)	(412,792)	167,181	(3,934,454)
Total Accumulated Depreciation	<u>(41,313,258)</u>	<u>(1,416,488)</u>	<u>167,181</u>	<u>(42,562,565)</u>
Total Capital Assets being depreciated, Net	<u>22,728,040</u>	<u>(1,029,904)</u>	<u>-</u>	<u>21,698,136</u>
Governmental Activities' Capital Assets, Net	<u>\$ 26,012,971</u>	<u>\$ 4,310,451</u>	<u>\$ -</u>	<u>\$ 30,323,422</u>
<u>Business-Type Activities</u>				
<i>Capital Assets, being depreciated:</i>				
Building and Improvements	\$ 12,000	\$ -	\$ -	\$ 12,000
Furniture and Equipment	209,345	-	-	209,345
Vehicles	51,437	-	-	51,437
<i>Total Capital Assets, being depreciated</i>	<u>272,782</u>	<u>-</u>	<u>-</u>	<u>272,782</u>
Less Accumulated Depreciation:				
Building and Improvements	(750)	(300)	-	(1,050)
Furniture and Equipment	(141,527)	(26,270)	-	(167,797)
Vehicles	(22,504)	(6,430)	-	(28,934)
Total Accumulated Depreciation	<u>(164,781)</u>	<u>(33,000)</u>	<u>-</u>	<u>(197,781)</u>
Business-Type Activities' Capital Assets, Net	<u>\$ 108,001</u>	<u>\$ (33,000)</u>	<u>\$ -</u>	<u>\$ 75,001</u>

NOTE 12: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Instruction:		
Regular	\$	658,042
Support Services:		
Administration		48,320
Operation and Maintenance of Plant		136,835
Pupil Transportation		349,396
Central		223,895
Total Depreciation Expense	\$	1,416,488

NOTE 13: LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2011 were as follows:

	Balance Outstanding 6/30/2010	Additions	Deletions	Balance Outstanding 6/30/2011	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>General Obligation Bonds</i>					
<i>Energy Conservation Bonds</i>					
Series 2002 - \$2,715,000 - 2.50% to 6.00%	\$ 1,450,000	\$ -	\$ (180,000)	\$ 1,270,000	\$ 190,000
Series 2009 - \$1,253,000 - 5.25%	1,193,900	-	(59,300)	1,134,600	62,500
<i>School and Library Refunding, Series 2006 -</i>					
Serial Bonds - \$6,300,000 - 3.375 % to 5.00%	2,815,000	-	(1,665,000)	1,150,000	-
Capital Appreciation Bonds - \$1,129,954 - 7.464%	1,129,954	-	-	1,129,954	1,129,954
Bond Accretion	410,994	117,166	-	528,160	-
<i>Classroom Facilities and School</i>					
<i>Improvement Bonds, Series 2010</i>					
Serial Bonds - \$3,235,000 - 1.75 % to 2.00%	3,235,000	-	(1,060,000)	2,175,000	1,080,000
Capital Appreciation Bonds - \$499,828 - 18.35%	499,828	-	-	499,828	-
Bond Accretion	-	81,863	-	81,863	-
Unamortized Bond Premium	428,488	-	(116,861)	311,627	-
Term Bonds - \$11,210,000 - 6.15%	11,210,000	-	-	11,210,000	-
Term Bonds - \$10,190,000 - 6.30%	10,190,000	-	-	10,190,000	-
Sinking Fund Bonds - \$15,165,000 - 1.85%	15,165,000	-	-	15,165,000	-
<i>Total General Obligation Bonds</i>	47,728,164	199,029	(3,081,161)	44,846,032	2,462,454
<i>Other Long-Term Obligations</i>					
<i>Permanent Improvement Tax Anticipation -</i>					
\$6,500,000 - 4.25%	3,615,000	-	(665,000)	2,950,000	700,000
Unamortized Bond Premium	276,773	-	(53,858)	222,915	-
Retirement Payout Liability	578,661	300,010	(386,661)	492,010	492,010
Claims and Judgments	1,690,494	1,239,073	(1,374,137)	1,555,430	1,247,853
Compensated Absences	3,169,433	939,228	(1,451,616)	2,657,045	1,128,162
<i>Total Other Long-Term Obligations</i>	9,330,361	2,478,311	(3,931,272)	7,877,400	3,568,025
Total Governmental Activities					
Long-Term Liabilities	\$ 57,058,525	\$ 2,677,340	\$ (7,012,433)	\$ 52,723,432	\$ 6,030,479
<u>Business-Type Activities</u>					
Compensated Absences	\$ 102,601	\$ -	\$ (9,259)	\$ 93,342	\$ 5,601

NOTE 13: LONG-TERM OBLIGATIONS (CONTINUED)

Prior Year Defeased Debt

In prior years, the District has defeased bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been 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 debt has been considered defeased and, therefore, removed as a liability from the District's Government-wide financial statements. As of June 30, 2011, the amount of defeased debt outstanding amounted to \$1,315,000.

General Obligation Bonds

In 2002, the District issued \$2,715,000 in energy conservation bonds for a fifteen year period to replace heating and lighting systems at several schools, with final maturity at December, 2016. The bonds will be retired from the bond retirement fund.

In 2006, the District issued \$6,300,000 in school and library refunding bonds and \$1,129,954 in capital appreciation bonds. These bonds were issued to provide for all future debt payments on the refunded portion of the 1995 school and library bonds. The maturity amount of outstanding school and library refunding bonds at June 30, 2011 is \$1,150,000. These bonds will mature in December 2015. The capital appreciation bonds will mature in December 2011. The maturity amount of the bonds is \$1,720,000. For fiscal year 2011, \$117,166 was accreted for a total bond value of \$1,658,114. The bonds will be retired from the bond retirement fund.

In 2009, the District issued \$1,253,000 in energy conservation improvement bonds for a fifteen year period. The bond was issued to retire \$1,338,000 in bond anticipation notes that were provided to pay the costs of installations, modifications, and remodeling of school buildings to conserve energy. The bonds will be retired from the bond retirement fund.

On March 4, 2010, the District issued \$40,299,828 in voted general obligation bonds which comprised of serial, capital appreciation (deep discount), term, and sinking fund bonds in the amount of \$3,235,000, \$499,828, \$21,400,000 and \$15,165,000, respectively. The general obligation bonds were issued for the purpose of building new schools within the Euclid City Schools system. The bonds were issued with a twenty-eight year period with final maturity at January 15, 2038. The bond retirement fund will fund the annual debt service requirements on these bonds. The serial, capital appreciation, term, and sinking fund bonds remained outstanding at June 30, 2011.

\$21,400,000 of the bonds issued on March 4, 2010, consisted of Build America Bonds (BABs) – Direct Payment. These bonds were created through the American Recovery and Reinvestment Act (ARRA) and offer federal subsidies through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. The issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be a payable by the Secretary of the Treasury.

\$15,165,000 of the bonds issued on March 4, 2010, consisted of Qualified School Construction Bonds (QSCBs). In addition to the aforementioned BABs, the QSCBs were authorized by the federal government through the ARRA. These bonds were issued as tax credit bonds under which the bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost.

NOTE 13: LONG-TERM OBLIGATIONS (CONTINUED)

The maturity amount of the capital appreciation bonds issued on March 4, 2010 is \$985,000. These bonds were originally sold at a discount of \$485,172, which is being accrued annually until the point of maturity of the bonds, which is January 15, 2014. For fiscal year 2011, \$81,863 was accreted for a total bond value of \$581,691.

The \$11,210,000 and \$10,190,000 term bonds maturing January 15, 2033 and January 15, 2038, respectively, are subject to optional mandatory redemption and extraordinary optional redemption requirements at a redemption price of 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on January 15 in the years (mandatory redemption dates) and in respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2027	\$ 1,415,000	2034	\$ 1,875,000
2028	1,475,000	2035	1,950,000
2029	1,535,000	2036	2,035,000
2030	1,595,000	2037	2,120,000
2031	1,660,000	Totals	<u>\$ 7,980,000</u>
2032	1,730,000		
Totals	<u>\$ 9,410,000</u>		

The remaining principal amounts of the two term bonds (\$1,800,000 and \$2,210,000) will mature at the stated maturity on January 15, 2033 and January 15, 2038, respectively.

The \$15,165,000 sinking fund bonds maturing January 15, 2026 are subject to extraordinary mandatory redemption and extraordinary optional redemption requirements on January 15 in the years (mandatory sinking fund dates) and in respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 125,000
2015	1,120,000
2016	1,145,000
2017	1,165,000
2018	1,190,000
2019	1,215,000
2020	1,240,000
2021	1,265,000
2022	1,290,000
2023	1,315,000
2024	1,340,000
2025	1,370,000
2026	1,385,000
Totals	<u>\$ 15,165,000</u>

NOTE 13: LONG-TERM OBLIGATIONS (CONTINUED)

Tax Anticipation Notes

In 2004, the District issued \$6,500,000 in long-term payable notes to provide for the renovation of the school buildings and other District improvements. These notes will be paid off over a ten year period of time with property taxes collected in the bond retirement fund.

Other Obligations

Retirement incentive will be paid from the fund from which the employee's salaries are paid. Compensated absences will be paid from the general fund and food service enterprise fund. See Note 17 for further details on the District's liability for claims and judgments.

The District's voted legal debt margin was \$31,055,263 with an unvoted debt margin of \$746,770 at June 30, 2011.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Permanent Improvement Tax Anticipation Note		General Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest *	Principal	Interest
2012	\$ 700,000	\$ 100,038	\$ 2,462,454	\$ 1,945,313	\$ 3,162,454	\$ 2,045,351
2013	725,000	73,844	1,700,900	1,316,095	2,425,900	1,389,939
2014	750,000	45,625	1,259,228	1,751,610	2,009,228	1,797,235
2015	775,000	15,500	1,788,200	1,233,694	2,563,200	1,249,194
2016	-	-	1,512,100	1,208,071	1,512,100	1,208,071
2017-2021	-	-	6,767,300	5,885,351	6,767,300	5,885,351
2022-2026	-	-	7,034,200	5,756,693	7,034,200	5,756,693
2027-2031	-	-	7,680,000	3,737,370	7,680,000	3,737,370
2032-2036	-	-	9,390,000	2,066,054	9,390,000	2,066,054
2037-2038	-	-	4,330,000	267,813	4,330,000	267,813
Totals	<u>\$ 2,950,000</u>	<u>\$ 235,007</u>	<u>\$ 43,924,382</u>	<u>\$ 25,168,064</u>	<u>\$ 46,874,382</u>	<u>\$ 25,403,071</u>

* - A portion of the interest has been netted against the federal subsidies provided by the federal government authorized through the American Recovery and Reinvestment Act (ARRA).

NOTE 14: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, technical, and maintenance and operations employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Unused vacation is not cumulative to the next year. Teachers do not earn vacation.

NOTE 14: **OTHER EMPLOYEE BENEFITS (CONTINUED)**

A. **Compensated Absences (Continued)**

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave to a maximum payout of 40 to 60 days based on the collective bargaining agreements.

B. **Special Termination of Benefits**

The District implemented an early retirement incentive offered to teaching staff members who retired at the end of the 2005/2006 and 2006/2007 school years only. The incentive consists of a cash payment in five (5) equal installments. The eligibility requirements for certified employees are age 60 and 5 years of service credit, age 55 and 25 years of service credit or any age with 30 years of service credit. As of June 30, 2011, the District's liability for this particular benefit is \$187,000 and is included with the retirement payout liability mentioned in Note 13. This benefit will be fully paid during fiscal year 2012.

NOTE 15: **PENSION PLANS**

A. **State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options - New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation amount various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

NOTE 15: **PENSION PLANS (CONTINUED)**

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who had (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the members’ three highest salary years. The annual allowance is calculated by using a base percentage of 2.20 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.50 percent with an additional one-tenth of a percent added to the calculation for every year over 31 years (2.60 percent for 32 years, 2.70 percent for 33 years and so on) until 100.00 percent of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.50 percent instead of 2.20 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.50 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members’ designated beneficiary is entitled to receive the members’ account balance.

Combined Plan Benefits - Member contributions are allocated to investments selected by the member, and employer contributions are used to fund a defined benefit payment. Plan members’ defined benefit is determined by multiplying 1 percent of the members’ final average salary by the members’ years of service credit. The defined benefit portion of the Combined Plan payment is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3.00 percent of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

NOTE 15: **PENSION PLANS (CONTINUED)**

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year ended June 30, 2010 (the latest information available), members were required to contribute 10.00 percent of their annual covered salary and the District was required to contribute 14.00 percent. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10.00 percent for members and 14.00 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14.00 percent contributed by the District, 13.00 percent was the portion used to fund pension obligations.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$4,684,882, \$4,747,383, and \$4,635,825, respectively; 85.34 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Member and employer contributions actually made for the Defined Contribution and Combined Plan participants will be provided upon written request.

B. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained on SERS' website at www.ohsers.org under *Employer/Audit Resources*.

Funding Policy - Plan members are required to contribute 10.00 percent of their annual covered salary and the District is required to contribute 14.00 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund, and the Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14.00 percent employer contribution rate is allocated to the Health Care and Medicare Part B funds. The School District's pension contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were \$1,525,494, \$1,681,161, and \$1,148,468, respectively; 51.28 percent has been contributed for fiscal year 2011 and 100 percent for fiscal year 2010 and 2009.

NOTE 16: **POST-EMPLOYMENT BENEFITS**

A. **State Teachers Retirement System**

Plan Description - Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy - Under Ohio law funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 1.00 percent of covered payroll was allocated to post-employment health care for years ended June 30, 2010, 2009 and 2008 (the latest information available). For the fiscal years ended June 30, 2011, 2010, and 2009, the District's contributions to post-employment health care were \$360,376, \$365,183, and \$356,602, respectively; 85.34 percent has been contributed for 2011 and 100 percent for fiscal years 2010 and 2009.

B. **School Employees Retirement System**

Plan Description – In addition to the cost-sharing multiple-employer defined benefit pension plan described in Note 14, SERS administers two postemployment benefit plans.

Medicare Part B Plan - The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2011, the actuarially required allocation is 0.76 percent. For the fiscal years ended June 30, 2011, 2010, and 2009, the District's contributions to the Medicare Part B Plan were \$98,169, \$99,975, and \$94,758, respectively; 51.28 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plan from various vendors, including HMOs, PPOs, 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.

NOTE 16: POST-EMPLOYMENT BENEFITS (CONTINUED)

The ORC provides the statutory authority to fund SERS’ postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14.00 percent contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43 percent. 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. State law provides that no employer shall pay a health care surcharge greater than 2.00 percent of that employer’s SERS covered payroll; nor may SERS collect in aggregate more than 1.50 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14.00 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District’s contributions assigned to health care for the years ended June 30, 2011, 2010 and 2009 were \$369,910, \$259,566, and \$717,675, respectively; 51.28 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The SERS 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 financial reports of SERS’ Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS’ website at www.ohsers.org under *Employers/Audit Resources*.

NOTE 17: RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the District contracted with Hylant Administrative Services – Ohio School Plan for fleet and liability insurance, with Travelers Insurance for boiler and machinery, and with Hyland Administrative Services – Ohio School Plan for property and inland marine coverage. Coverages provided were as follows:

Building, Contents, Boiler and Machinery Contents (\$10,000 deductible)	\$ 191,192,879
Crime Insurance (\$500 deductible)	50,000
Automobile Liability (\$250 Comprehensive deductible/ \$500 Collision deductible)	1,000,000
Uninsured Motorists	50,000
General Liability (per occurrence)	1,000,000
General Liability (total per year)	2,000,000

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

NOTE 17: **RISK MANAGEMENT (CONTINUED)**

B. Self-Insurance Program

The self-insurance program for health care has been administered by Medical Mutual of Ohio since January, 2001. Medical Mutual of Ohio began administering the program in January, 2001. Payments are made to Medical Mutual of Ohio for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the fund consist of payments from other funds and are based on self-insurance losses, policy stop-loss premiums, and other operating expenses.

The claims liability of \$1,096,000 reported in the fund at June 30, 2011 was estimated by the third party administrator and is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses (GASB Statement No. 30). Changes in the fund's claims liability amount for the fiscal years ended June 30, 2010 and 2011 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>End of Year</u>
June 30, 2010	\$ 1,329,700	\$ 7,027,930	\$ (7,134,030)	\$ 1,223,600
June 30, 2011	1,223,600	7,432,199	(7,559,199)	1,096,600

The above claim payments include management fees in the amount of \$580,026.

C. Workers' Compensation Program

The District participates in the State Workers' Compensation retrospective rating and payment system. The plan involves the payment of a minimum premium for administrative services and stop loss coverage plus the actual claim costs for employees injured. The program for workers' compensation is administered by Comp Management Inc. Payments are made directly to the Ohio Bureau of Workers' Compensation for actual claims processed. Operating revenues of the fund consist of payments from other funds and earnings on the investing of these funds that are based on self-insurance losses, policy stop-loss premiums, and other operating expenses.

The claims liability of \$458,830 reported in the fund at June 30, 2011 was estimated by the Bureau of Workers Compensation and is based on the requirement of Governmental Standards Board 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. Changes in the fund's current claims liability amount for the fiscal years ended June 30, 2010 and 2011 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Interest Earned</u>	<u>End of Year</u>
June 30, 2010	\$ 269,001	\$ 770,251	\$ (579,644)	\$ 7,286	\$ 466,894
June 30, 2011	466,894	544,245	(558,356)	6,047	458,830

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

Ohio Schools' Council Association (Council) – The Council is a jointly governed organization among one hundred twenty-one school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2011, the District paid \$3,877 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's prepaid natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 139 districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The District also participates in the Council's electric purchase program. In September 2009, the Council negotiated and approved a contract for discounted electric generation with Duke Energy Retail Sales, LLC for schools in the FirstEnergy territory – Ohio Edison, Cleveland Electric Illuminating and Toledo Edison. The price is \$0.051 per kWh for all district facilities (including non-classroom facilities) and is guaranteed for twenty months ending May 31, 2011. There are one hundred and ten (110) districts participating in this program. Each month, the Council invoices participants based on estimated usage that was determined when the program was established. Each September, these estimated payments are compared to their actual usage for the year (July to June). Refund checks are issued to districts that consumed less than their projected usage of electrical energy and districts that over-consumed are invoiced.

NOTE 19: RELATED ORGANIZATION

Euclid Public Library – The Euclid Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Euclid City School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District serves as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Euclid Public Library at 631 East 222nd Street, Euclid, Ohio 44123.

NOTE 20: CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

B. Litigation

The District is party to legal proceedings. The District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

NOTE 21: INTERFUND TRANSACTIONS

A. Interfund Balances

On June 30, 2011, interfund balances on fund financial statements consist of the following:

	Receivable	Payable
<u>Governmental Funds</u>		
<i>Major Fund</i>		
General Fund	\$ 269,153	\$ -
 <i>Nonmajor Governmental Funds</i>		
Special Revenue Funds	-	19,062
Debt Service Fund	-	122,503
Capital Projects Funds	122,503	250,091
Total Interfund Balances	\$ 391,656	\$ 391,656

Monies were advanced from one fund to another to cover operating expenses until additional monies are received. Interfund balances were eliminated since they were within governmental activities.

B. Interfund Transfers

On June 30, 2011, interfund transfers on fund financial statements consist of the following:

	Transfers In	Transfers Out
<i>Major Fund</i>		
General	\$ -	\$ 304,732
 <i>Nonmajor Governmental Funds</i>		
Debt Service Fund	304,732	-
Total Interfund Transfers	\$ 304,732	\$ 304,732

Transfers were made to provide additional resources for current operations. Transfers of \$304,732 were eliminated since they were within the governmental activities.

NOTE 22: SET-ASIDE REQUIREMENTS

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 and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2011, only the unspent portion of certain workers' compensation refunds continues to be a required set-aside. As a result of the implementation of GASB Statement No. 54, the District's budget stabilization amount has been classified as unassigned fund balance. This fund balance classification is necessary since the District does not provide specific circumstances and these circumstances could occur routinely.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Reserve Balance as of June 30, 2010	\$ (652,883)	\$ -	\$ 1,276,135
Current Year Set-Aside Requirements	952,860	952,860	-
Qualifying Disbursements	<u>(1,240,247)</u>	<u>(3,743,458)</u>	<u>-</u>
Totals	<u>(940,270)</u>	<u>(2,790,598)</u>	<u>1,276,135</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$ (940,270)</u>	<u>\$ -</u>	<u>\$ 1,276,135</u>
Set-Aside Reserve Balance as of June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,276,135</u>

The District had qualifying expenditures during the fiscal year that were above the current year textbook set-aside amount. Previous years' carry over balances were utilized to satisfy the set-aside requirement. Although the District had qualifying disbursements during the year that reduced the capital improvements set-aside amount below zero, these extra amounts may not be used to reduce the set-aside requirement in future fiscal years.

NOTE 23: **OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of June 30, 2011, the District's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 364,020
Classroom Facilities	26,648,602
Nonmajor Governmental	<u>1,140,656</u>
Total	<u>\$ 28,153,278</u>

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

Board of Education
Euclid City School District
Euclid, Ohio

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 Euclid City School District, Cuyahoga County, Ohio, as of and for the year ended June 30, 2011, which collectively comprise the Euclid City School District, Ohio's basic financial statements and have issued our report thereon dated December 16, 2011 wherein, we noted that the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Euclid City School District, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Euclid City School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Euclid City School District, Ohio'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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Euclid City School District, Ohio, in a separate letter dated December 16, 2011.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

December 16, 2011

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Euclid City School District
Euclid, Ohio

Compliance

We have audited the Euclid City School District, Cuyahoga County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Euclid City School District, Ohio's major federal programs for the year ended June 30, 2011. The Euclid City School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Euclid City School District, Ohio's management. Our responsibility is to express an opinion on the Euclid City School District, Ohio'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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Euclid City School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Euclid City School District, Ohio's compliance with those requirements.

As described in **Finding - 2011-1** in the accompanying Schedule of Findings and Questioned Costs, the Euclid City School District, Ohio, did not comply with requirements regarding cash management applicable to its Education Jobs Fund major federal program. Compliance with this requirement is necessary, in our opinion, for the Euclid City School District, Ohio to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Euclid City School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Euclid City School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Euclid City School District, Ohio's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine that auditing procedures for the purpose of expressing our opinion 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 expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Euclid City School District, Ohio's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2011-1** to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2011-2** to be a significant deficiency.

Euclid City School District, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Euclid City School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.

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

December 16, 2011

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non - Cash Receipts	Expenditures	Non - Cash Expenditures
<u>U.S. Department of Defense</u>					
<i>Direct Assistance</i>					
Junior ROTC	12.000	\$ 57,976	\$ 0	\$ 57,976	\$ 0
Total U.S. Department of Defense		<u>57,976</u>	<u>0</u>	<u>57,976</u>	<u>0</u>
<u>U.S. Department of Agriculture</u>					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
Child Care - Summer School Meals	10.559	30,259	0	30,259	0
National School Breakfast Program	10.553	288,177	0	288,177	0
National School Lunch Program	10.555	1,420,892	239,428	1,420,892	239,428
<i>Total Child Nutrition Cluster</i>		<u>1,739,328</u>	<u>239,428</u>	<u>1,739,328</u>	<u>239,428</u>
Total U.S. Department of Agriculture		<u>1,739,328</u>	<u>239,428</u>	<u>1,739,328</u>	<u>239,428</u>
<u>U.S. Department of Education</u>					
<i>Passed through Ohio Department of Education</i>					
Special Education Cluster:					
Special Education Grants	84.027	1,305,397	0	1,185,786	0
ARRA - Special Education Grants	84.391	843,754	0	807,316	0
Subtotal Special Education Grants		<u>2,149,151</u>	<u>0</u>	<u>1,993,102</u>	<u>0</u>
Preschool Grant	84.173	43,500	0	32,900	0
ARRA - Preschool Grant	84.392	30,173	0	31,324	0
Subtotal Preschool Grant		<u>73,673</u>	<u>0</u>	<u>64,224</u>	<u>0</u>
<i>Total Special Education Cluster</i>		<u>2,222,824</u>	<u>0</u>	<u>2,057,326</u>	<u>0</u>
Adult Basic Education	84.002	788,286	0	775,571	0
Title I, Part A Cluster:					
Title I	84.010	2,209,589	0	1,824,291	0
ARRA - Title I	84.389	617,502	0	628,947	0
Total Title I, Part A Cluster		<u>2,827,091</u>	<u>0</u>	<u>2,453,238</u>	<u>0</u>
Drug Free Schools Grant - State Grants	84.186	16,699	0	16,757	0
Educational Technology State Grants Cluster:					
Educational Technology	84.318	41,651	0	62,572	0
ARRA - Educational Technology	84.386	519,908	0	513,786	0
Total Educational Technology State Grants Cluster		<u>561,559</u>	<u>0</u>	<u>576,358</u>	<u>0</u>
Education Jobs Fund	84.410	525,966	0	339,612	0
ARRA - State Fiscal Stabilization Fund, Education State Grants	84.394	2,023,133	0	2,127,304	0
ARRA - Race to the Top	84.395	70,975	0	70,975	0
Improving Teacher Quality	84.367	306,997	0	283,413	0
Total U.S. Department of Education		<u>9,343,530</u>	<u>0</u>	<u>8,700,554</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$11,140,834</u>	<u>\$ 239,428</u>	<u>\$10,497,858</u>	<u>\$ 239,428</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**EUCLID CITY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS - CASH
JUNE 30, 2011**

NOTE 1: **BASIS OF PRESENTATION**

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

NOTE 2: **NONCASH SUPPORT**

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

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

2011(i)	Type of Financial Statement Opinion	Unqualified
2011(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2011(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2011(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2011(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
2011(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
2011(v)	Type of Major Programs' Compliance Opinion: Special Education Cluster - Unqualified Child Nutrition Cluster - Unqualified Title I Cluster - Unqualified Educational Technology State Grants Cluster - Unqualified Education Jobs Fund - Qualified ARRA - State Fiscal Stabilization Fund, Education State Grants - Unqualified	
2011(vi)	Are there any reportable findings under .510?	Yes
2011(vii)	Major Programs (list): Special Education Cluster - CFDA #84.027, #84.173, #84.391 and #84.392 Child Nutrition Cluster CFDA #10.553, #10.555, and #10.559 Title I, Part A Cluster - CFDA #84.010 and #84.389 Educational Technology - State Grants Cluster - CFDA #84.318 and 84.386 Education Jobs Fund - CFDA #84.410 ARRA - State Fiscal Stabilization Fund, Education State Grants - CFDA #84.394	
2011(viii)	Dollar Threshold: Type A\B Program	Type A: \$322,119 or more Type B: All others less than \$322,119
2011(ix)	Low Risk Auditee?	No

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505 (CONTINUED)
JUNE 30, 2011**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number - 2011-1

CFDA Title and Number - Education Jobs Fund CFDA # 84.410

Federal Award Number/Year - 2011

Federal Agency - United States Department of Education

Pass-Through Agency - Ohio Department of Education

Noncompliance Citation/Material Weakness

34 CFR 80.20 (b)(7) requires that when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make draw downs as close as possible to the time of making disbursements.

The School District received advance payments of funds from the Ohio Department of Education (ODE) via wire transfer. During the year, the School accumulated a positive cash balance in the fund due to the School District not spending the cash received in a timely manner. At June 30, 2011 the unspent balance of the Education Jobs Fund was \$186,353.

Cause/Effect

The failure to spend federal grants in a timely manner could result in the School District being required to return funding to the grantor agency. The loss of federal grant money could negatively impact the operations of the School District.

Recommendation

We recommend that the School District should implement procedures to help assure that the balances of federal grant funds are spent in a timely manner.

Client Response

Corrective action is being taken. The new procedures involve a sign off by the Treasurer before funds are requested. Documentation will be maintained showing the beginning cash balance, expenditures incurred and the cash flow after request.

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505 (CONTINUED)
JUNE 30, 2011**

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS** (Continued)

Finding No. 2011-2 Significant Deficiency - Review of Nutrition Program Claims for Reimbursement

Finding Number - 2011-2

CFDA Title and Number - Nutrition Cluster CFDA # 10.553,10.555 and 10.559

Federal Award Number/Year - 2011

Federal Agency - United Department of Agriculture

Pass-Through Agency - Ohio Department of Education

Statement of Condition/Criteria

During our compliance testing of the Nutrition Program, we noted variances between month end System Link Technology Reports (SNAP) that track the District's daily food service sales by building and the MR-12 and MR-31 reports submitted to the Ohio Department of Education (ODE). We estimated the District was overpaid \$4,931 for lunch reimbursements and underpaid \$1,099 for breakfast reimbursements. This resulted in approximately \$3,832 of additional reimbursements for the audit period.

Cause/Effect

The variances were due to inaccurate data being reported to the Ohio Department of Education (ODE) via the respective MR-12 and MR-31 reports. The District's failure to properly review these reports exhibits a deficiency in controls over A-133 compliance requirements for allowable costs, cash management and reporting.

Recommendation

We recommend that the District review and compare each building's SNAP report with the MR-12 and MR-31 reports submitted to the Ohio Department (ODE) prior to submission. This will ensure the actual number of meals served is accurately reported to obtain the correct Federal reimbursement.

Client Response

The District will continue to monitor the program and make necessary changes.

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2011**

Not Corrected,
Partially Corrected;
Significantly Different;
Corrective Action Taken;
or Finding no Longer
Valid; Explain

Number	Finding Summary	
2010-01	Material Weakness - Nutrition Cluster	No, Partially Corrected - Repeated as Significant Deficiency

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Euclid City School District
Cuyahoga County
Euclid, Ohio

To the Board of Education:

Ohio Revised Code Section 117.53 states, "the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Euclid City School District (the District), Cuyahoga County, Ohio, has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation, or bullying as of year June 30, 2011.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

December 16, 2011



Dave Yost • Auditor of State

EUCLID 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, 2012