

South Euclid-Lyndhurst City School District

**Basic Financial Statements
June 30, 2012**



Dave Yost • Auditor of State

Board of Education
South Euclid-Lyndhurst City School District
5044 Mayfield Road
Lyndhurst, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 South Euclid-Lyndhurst 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 1, 2013

South Euclid-Lyndhurst City School District

For the Year Ended June 30, 2012

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South Euclid-Lyndhurst City School District

For the Year Ended June 30, 2012

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Independent Auditor's Report

Board of Education
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the 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.

Board of Education
South Euclid-Lyndhurst City School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cini & Panichi, Inc.

Cleveland, Ohio
December 20, 2012

South Euclid-Lyndhurst City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

The discussion and analysis of the South Euclid-Lyndhurst City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- During fiscal year 2012, net assets increased due to an increase in taxes receivable and decreases in notes payable and long-term debt.
- During fiscal year 2012, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendments of GASB Statement No. 53, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

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 School 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 School District, presenting both an aggregate view of the School 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 and what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the general and the permanent improvement capital projects funds are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *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.

South Euclid-Lyndhurst City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

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

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and non-instructional services.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement capital projects fund.

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

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

(Table 1)
Net Assets

| | Governmental Activities | | |
|-----------------------------|-------------------------|---------------------|--------------------|
| | 2012 | 2011 | Change |
| Assets | | | |
| Current and Other Assets | \$69,761,849 | \$68,489,313 | \$1,272,536 |
| Capital Assets, Net | 18,947,508 | 19,210,211 | (262,703) |
| <i>Total Assets</i> | <u>88,709,357</u> | <u>87,699,524</u> | <u>1,009,833</u> |
| Liabilities | | | |
| Current Liabilities | 48,465,784 | 51,184,363 | 2,718,579 |
| Long Term Liabilities: | | | |
| Due Within One Year | 1,658,817 | 2,021,348 | 362,531 |
| Due in More than One Year | 7,743,065 | 8,225,652 | 482,587 |
| <i>Total Liabilities</i> | <u>57,867,666</u> | <u>61,431,363</u> | <u>3,563,697</u> |
| Net Assets | | | |
| Invested in Capital Assets, | | | |
| Net of Related Debt | 6,751,416 | 5,121,789 | 1,629,627 |
| Restricted: | | | |
| Capital Projects | 1,862,641 | 1,345,377 | 517,264 |
| Debt Service | 1,267,851 | 1,438,685 | (170,834) |
| Other Purposes | 1,247,337 | 871,008 | 376,329 |
| Unrestricted | 19,712,446 | 17,491,302 | 2,221,144 |
| <i>Total Net Assets</i> | <u>\$30,841,691</u> | <u>\$26,268,161</u> | <u>\$4,573,530</u> |

As one can see from the increase in overall net assets, the School District continues to provide the services that the School District citizens expect while maintaining the costs of providing those services during the current economic recession. Management is ever cognizant of the costs of providing a quality education.

Total assets increased during fiscal year 2012 primarily due to an increase in taxes receivable. The increase was due to an increase in delinquent real property taxes to be collected. Total liabilities decreased during fiscal year 2012 which can be primarily attributed to a decrease in notes payable and long-term debt, as well as deferred revenues from fewer intergovernmental receivables.

Table 2 shows the change in net assets for fiscal years 2012 and 2011.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Governmental Activities

(Table 2)
Changes in Net Assets

| | Governmental Activities | | |
|--|-------------------------|---------------------|--------------------|
| | 2012 | 2011 | Change |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services and Sales | \$2,767,165 | \$3,089,094 | (\$321,929) |
| Operating Grants, Interest and Contributions | 4,756,101 | 4,267,537 | 488,564 |
| Capital Grants and Contributions | 0 | 330,361 | (330,361) |
| <i>Total Program Revenues</i> | <u>7,523,266</u> | <u>7,686,992</u> | <u>(163,726)</u> |
| General Revenues: | | | |
| Property Taxes | 44,874,401 | 44,167,065 | 707,336 |
| Grants and Entitlements not Restricted to Specific Programs | 14,107,975 | 15,478,442 | (1,370,467) |
| Unrestricted Contributions | 3,175 | 6,798 | (3,623) |
| Interest | 35,651 | 21,628 | 14,023 |
| Payment in Lieu of Taxes | 562,500 | 385,000 | 177,500 |
| Other | 893,391 | 985,786 | (92,395) |
| <i>Total General Revenues</i> | <u>60,477,093</u> | <u>61,044,719</u> | <u>(567,626)</u> |
| <i>Total Revenues</i> | <u>68,000,359</u> | <u>68,731,711</u> | <u>(731,352)</u> |
| Program Expenses | | | |
| Instruction | 36,123,528 | 39,318,484 | 3,194,956 |
| Support Services: | | | |
| Pupil | 4,130,354 | 4,049,494 | (80,860) |
| Instructional Staff | 1,449,460 | 1,707,651 | 258,191 |
| Board of Education | 245,149 | 194,491 | (50,658) |
| Administration | 3,644,349 | 4,066,614 | 422,265 |
| Fiscal | 1,874,350 | 1,775,600 | (98,750) |
| Business | 373,195 | 364,900 | (8,295) |
| Operation and Maintenance of Plant | 6,622,079 | 7,127,115 | 505,036 |
| Pupil Transportation | 2,845,497 | 3,236,127 | 390,630 |
| Central | 1,378,785 | 1,493,965 | 115,180 |
| Operation of Non-Instructional Services | 2,871,844 | 2,992,626 | 120,782 |
| Extracurricular Activities | 1,305,547 | 1,332,396 | 26,849 |
| Interest and Fiscal Charges | 562,692 | 629,004 | 66,312 |
| <i>Total Program Expenses</i> | <u>63,426,829</u> | <u>68,288,467</u> | <u>4,861,638</u> |
| Change in Net Assets | 4,573,530 | 443,244 | 4,130,286 |
| <i>Net Assets Beginning of Year</i> | <u>26,268,161</u> | <u>25,824,917</u> | <u>443,244</u> |
| <i>Net Assets End of Year</i> | <u>\$30,841,691</u> | <u>\$26,268,161</u> | <u>\$4,573,530</u> |

While program revenues decreased for governmental activities in fiscal 2012 as a result of less tuition and fees received and less capital grant funding, the vast majority of revenues supporting governmental activities are general revenues. General revenues decreased in fiscal year 2012 primarily due to less intergovernmental revenue in the form of monies from the Ohio Department of Education.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voter levy does not increase solely as a result of inflation. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920 (HB 920). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would be assessed \$35.00 annually in taxes. If three years later the home was appraised and increased to \$200,000 (and the inflationary increase in value is comparable to the other property owners), the effective tax rate would become .5 mills and the owner would still be assessed \$35.00 and the School District would collect the same dollar value the levy generated in the year it was passed.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up the largest percentage of revenue for governmental activities for the School District in fiscal year 2012.

Program expenses decreased in fiscal year 2012 primarily due to a reduction in salaries, staffing levels and healthcare premium costs from the previous fiscal year.

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

(Table 3)
Governmental Activities

| Programs | Total Cost of Services 2012 | Net Cost of Services 2012 | Total Cost of Services 2011 | Net Cost of Services 2011 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction | \$36,123,528 | (\$32,932,164) | \$39,318,484 | (\$36,204,592) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 5,579,814 | (4,947,760) | 5,757,145 | (5,303,021) |
| Board of Education, Administration, Fiscal and Business | 6,137,043 | (5,877,064) | 6,401,605 | (6,094,996) |
| Operation and Maintenance of Plant | 6,622,079 | (6,373,985) | 7,127,115 | (6,658,519) |
| Pupil Transportation | 2,845,497 | (2,748,001) | 3,236,127 | (2,971,085) |
| Central | 1,378,785 | (1,331,114) | 1,493,965 | (1,341,545) |
| Operation of Non-Instructional Services | 2,871,844 | (154,889) | 2,992,626 | (346,869) |
| Extracurricular Activities | 1,305,547 | (975,894) | 1,332,396 | (1,051,844) |
| Interest and Fiscal Charges | 562,692 | (562,692) | 629,004 | (629,004) |
| Total Expenses | <u>\$63,426,829</u> | <u>(\$55,903,563)</u> | <u>\$68,288,467</u> | <u>(\$60,601,475)</u> |

The School District's Funds

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$64,707,923 and expenditures of \$63,983,251. The total fund balance for all of the governmental funds increased in fiscal year 2012 due primarily to expenditures decreasing at a larger pace than revenues from the prior fiscal year. The community as a whole is by far the primary support for the South Euclid-Lyndhurst City School District's students.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The general fund balance decreased compared to the previous fiscal year. Although revenues exceeded expenditures, the general fund is responsible for transfers to other funds.

The permanent improvement capital projects fund balance increased from the prior fiscal year. Revenues increased due to additional property tax revenues. Expenditures decreased due to projects finishing up in the prior fiscal year.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the School District modified its general fund budget. The School District uses site-based budgeting and budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue was higher than the original budget estimate due to an increase in property tax and intergovernmental revenues estimated for the year. Total actual revenues were only slightly lower than final budgeted revenues.

For the general fund, final budget basis expenditures were less than the original budget basis expenditures. This is due to the School District trying to bring costs more in line with revenues as they were coming in during the fiscal year.

Total actual expenditures on the budget basis were less than final budgeted amounts. This is largely attributable to the School District's cost cutting measures.

Capital Assets

Table 4 shows fiscal year 2012 balances compared to 2011.

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

| | 2012 | 2011 | Change |
|----------------------------|--------------|--------------|-------------|
| Land | \$660,393 | \$660,393 | \$0 |
| Construction in Progress | 160,815 | 0 | 160,815 |
| Buildings and Improvements | 15,634,589 | 15,937,598 | (303,009) |
| Furniture and Equipment | 1,396,142 | 1,538,360 | (142,218) |
| Vehicles | 1,095,569 | 1,073,860 | 21,709 |
| | \$18,947,508 | \$19,210,211 | (\$262,703) |

The decrease in capital assets is due to depreciation exceeding capital asset additions. For additional information, see Note 10.

South Euclid-Lyndhurst City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Senate Bill 345 requires school districts to set aside certain general fund revenues for the purpose of capital improvements (See Note 15). For fiscal year 2012, this amounted to \$731,241. Effective July 1, 2011, the textbook set aside is no longer required and has been removed from existing law. Please see Note 15 for additional information regarding set asides.

Debt

Table 5 summarizes the outstanding debt.

(Table 5)
 Outstanding Debt at Fiscal Year End

| | 2012 | 2011 | Change |
|---|---------------------|---------------------|----------------------|
| School Improvement Refunding Bonds - 2006 | \$5,889,464 | \$6,625,816 | (\$736,352) |
| Bond Anticipation Note - 2009 | 0 | 250,000 | (250,000) |
| Tax Anticipation Note - 2007 | 6,683,849 | 7,652,223 | (968,374) |
| Total Debt | \$12,573,313 | \$14,528,039 | (\$1,954,726) |

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term and capital appreciation bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds.

On November 29, 2009, the School District issued \$500,000 in bond anticipation notes for the purpose of updating school buildings to conserve energy. The School District paid \$250,000 on the notes and reissued them for \$250,000 on November 23, 2010 at a stated interest rate of 2.25 percent. The notes were paid off on November 23, 2011.

On April 19, 2007 the School District issued \$9,950,000 in tax anticipation notes in order to finance new construction. The notes were issued for an eleven year period and have a final maturity date of December 1, 2017.

Please see Notes 16 and 17 for additional information.

Current Financial Related Activities

Since the passage of the November 2008 5.4 mill levy, the School District received a full year's collection beginning in fiscal year 2010. Unfortunately, as a result of declining property values throughout our community combined with the elimination of tangible personal property tax, the School District has received significantly less tax dollars from this levy and the May 2005 levy than originally anticipated.

The financial future of the School District is not without challenges. These challenges are both internal and external in nature. The internal challenge will continue to exist because the School District must rely heavily on local property taxes to fund operations. External challenges continue to increase as the State's educational funding system generates very little, if any, growth from the prior year.

South Euclid-Lyndhurst City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

The most recent budget from the Governor's Office (released in March 2011) had a devastating financial impact on the School District beginning in fiscal year 2012. The School District will recognize a loss of all of its' State Fiscal Stabilization Funds (SFSF), which is approximately \$550,000 per year. Also, as a result of the Governor's budget, the School District lost one-half of its' Tangible Personal Property Reimbursement (TPP) in fiscal year 2012 and all of it in fiscal year 2013. This loss combined with the SFSF loss is approximately a reduction to revenue over a two year period of \$4.4 million.

Recognizing this drastic financial impact to the School District, two of the School District's three unions, including administrators, agreed to a one year extension to the current contract with a complete wage freeze to salaries in fiscal year 2012 (the final year of the contract) and fiscal year 2013 (a one year extension). This wage freeze is projected to save the School District slightly more than \$1.2 million over the two year period.

Unfortunately, the School District must rely heavily on its property tax payers to support its operations; however, the community has been extremely supportive of past levies. The community has approved levies in 2001, 2005 and 2008. The levy campaign in November 2008 indicated that the School District would expect to be back on the ballot for additional revenue in two (2) years if this levy was successful. The levy was not anticipated to last very long as a result of a lower millage than needed in November 2008 (5.4 mills) as a result of a levy defeat in May 2008 of 6.95 mills.

As a result of careful and considerate fiscal planning, the School District placed a 5.9 mill operating levy on the November 6, 2012 ballot (2 years longer than originally promised). By a considerable margin, the South Euclid-Lyndhurst community approved this continuing levy, which is expected to generate \$4.4 million annually beginning in calendar year 2013.

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 School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Paul J. Pestello, Treasurer of South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124 or pestello@sel.k12.oh.us.

South Euclid-Lyndhurst City School District

Statement of Net Assets

June 30, 2012

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$12,141,683 |
| Accounts Receivable | 14,225 |
| Intergovernmental Receivable | 611,832 |
| Prepaid Items | 583,614 |
| Materials and Supplies Inventory | 11,598 |
| Inventory Held for Resale | 30,311 |
| Property Taxes Receivable | 56,215,214 |
| Deferred Charges | 153,372 |
| Non-depreciable Capital Assets | 821,208 |
| Depreciable Capital Assets, Net | <u>18,126,300</u> |
| <i>Total Assets</i> | <u>88,709,357</u> |
| Liabilities | |
| Accounts Payable | 920,745 |
| Accrued Wages and Benefits | 4,518,987 |
| Intergovernmental Payable | 1,669,588 |
| Matured Compensated Absences Payable | 256,918 |
| Deferred Revenue | 34,369,880 |
| Accrued Interest Payable | 45,817 |
| Notes Payable | 6,683,849 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,658,817 |
| Due In More Than One Year | <u>7,743,065</u> |
| <i>Total Liabilities</i> | <u>57,867,666</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 6,751,416 |
| Restricted for: | |
| Capital Outlay | 1,862,641 |
| Debt Service | 1,267,851 |
| Sixth Grade Camp | 330,617 |
| Reading Programs | 53,824 |
| Athletics and Music | 90,157 |
| Auxiliary Services | 129,354 |
| Title I | 32,555 |
| Unclaimed Monies | 47,863 |
| Other Purposes | 562,967 |
| Unrestricted | <u>19,712,446</u> |
| <i>Total Net Assets</i> | <u><u>\$30,841,691</u></u> |

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2012

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|-----------------------------------|---------------------------------------|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$23,771,805 | \$839,243 | \$586,538 | (\$22,346,024) |
| Special | 9,094,517 | 253,945 | 1,405,524 | (7,435,048) |
| Vocational | 2,004,882 | 65,287 | 0 | (1,939,595) |
| Student Intervention | 1,252,324 | 40,827 | 0 | (1,211,497) |
| Support Services: | | | | |
| Pupil | 4,130,354 | 129,513 | 158,509 | (3,842,332) |
| Instructional Staff | 1,449,460 | 37,301 | 306,731 | (1,105,428) |
| Board of Education | 245,149 | 8,325 | 0 | (236,824) |
| Administration | 3,644,349 | 117,099 | 61,269 | (3,465,981) |
| Fiscal | 1,874,350 | 61,081 | 0 | (1,813,269) |
| Business | 373,195 | 12,205 | 0 | (360,990) |
| Operation and Maintenance of Plant | 6,622,079 | 210,531 | 37,563 | (6,373,985) |
| Pupil Transportation | 2,845,497 | 92,084 | 5,412 | (2,748,001) |
| Central | 1,378,785 | 34,047 | 13,624 | (1,331,114) |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,738,513 | 561,005 | 1,037,376 | (140,132) |
| Other Non-Instructional Services | 1,133,331 | 1,365 | 1,117,209 | (14,757) |
| Extracurricular Activities | 1,305,547 | 303,307 | 26,346 | (975,894) |
| Interest and Fiscal Charges | 562,692 | 0 | 0 | (562,692) |
| Totals | \$63,426,829 | \$2,767,165 | \$4,756,101 | (55,903,563) |
| General Revenues | | | | |
| Property Taxes and Other Local Taxes | | | | 44,874,401 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 14,107,975 |
| Unrestricted Contributions | | | | 3,175 |
| Investment Earnings | | | | 35,651 |
| Payment in Lieu of Taxes | | | | 562,500 |
| Miscellaneous | | | | 893,391 |
| <i>Total General Revenues</i> | | | | 60,477,093 |
| Change in Net Assets | | | | 4,573,530 |
| <i>Net Assets Beginning of Year</i> | | | | 26,268,161 |
| <i>Net Assets End of Year</i> | | | | \$30,841,691 |

South Euclid-Lyndhurst City School District

Balance Sheet

Governmental Funds

June 30, 2012

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$8,786,777 | \$1,448,139 | \$1,858,904 | \$12,093,820 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 47,863 | 0 | 0 | 47,863 |
| Accounts Receivable | 12,481 | 0 | 1,744 | 14,225 |
| Intergovernmental Receivable | 100,836 | 0 | 510,996 | 611,832 |
| Prepaid Items | 552,464 | 0 | 31,150 | 583,614 |
| Materials and Supplies Inventory | 9,370 | 0 | 2,228 | 11,598 |
| Inventory Held for Resale | 0 | 0 | 30,311 | 30,311 |
| Interfund Receivable | 72,350 | 0 | 0 | 72,350 |
| Property Taxes Receivable | 52,737,079 | 2,427,502 | 1,050,633 | 56,215,214 |
| <i>Total Assets</i> | <u>\$62,319,220</u> | <u>\$3,875,641</u> | <u>\$3,485,966</u> | <u>\$69,680,827</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$230,474 | \$510,636 | \$179,635 | \$920,745 |
| Accrued Wages and Benefits | 4,338,880 | 0 | 180,107 | 4,518,987 |
| Intergovernmental Payable | 1,605,191 | 0 | 64,397 | 1,669,588 |
| Matured Compensated Absences Payable | 176,692 | 0 | 80,226 | 256,918 |
| Interfund Payable | 0 | 0 | 72,350 | 72,350 |
| Deferred Revenue | 47,458,506 | 2,178,125 | 1,304,618 | 50,941,249 |
| Accrued Interest Payable | 0 | 24,396 | 0 | 24,396 |
| Notes Payable | 0 | 6,683,849 | 0 | 6,683,849 |
| <i>Total Liabilities</i> | <u>53,809,743</u> | <u>9,397,006</u> | <u>1,881,333</u> | <u>65,088,082</u> |
| Fund Balances | | | | |
| Nonspendable | 609,697 | 0 | 33,378 | 643,075 |
| Restricted | 0 | 0 | 1,852,339 | 1,852,339 |
| Assigned | 988,997 | 0 | 0 | 988,997 |
| Unassigned (Deficit) | 6,910,783 | (5,521,365) | (281,084) | 1,108,334 |
| <i>Total Fund Balances (Deficit)</i> | <u>8,509,477</u> | <u>(5,521,365)</u> | <u>1,604,633</u> | <u>4,592,745</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$62,319,220</u> | <u>\$3,875,641</u> | <u>\$3,485,966</u> | <u>\$69,680,827</u> |

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities*
 June 30, 2012

| | |
|---|-------------|
| Total Governmental Fund Balances | \$4,592,745 |
|---|-------------|

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

| | |
|---|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 18,947,508 |
|---|------------|

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

| | |
|---------------------------|----------------|
| Delinquent Property Taxes | 16,101,357 |
| Grants | <u>470,012</u> |

| | |
|-------|------------|
| Total | 16,571,369 |
|-------|------------|

| | |
|--|---------|
| In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds bond issuance expenditures are reported when bonds are issued. | 153,372 |
|--|---------|

| | |
|--|----------|
| In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due. | (21,421) |
|--|----------|

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

| | |
|--------------------------|--------------------|
| General Obligation Bonds | (5,889,464) |
| Compensated Absences | <u>(3,512,418)</u> |

| | |
|-------|--------------------|
| Total | <u>(9,401,882)</u> |
|-------|--------------------|

| | |
|--|----------------------------|
| <i>Net Assets of Governmental Activities</i> | <u><u>\$30,841,691</u></u> |
|--|----------------------------|

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

| | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$38,928,319 | \$1,987,805 | \$647,180 | \$41,563,304 |
| Intergovernmental | 13,571,846 | 318,246 | 4,794,253 | 18,684,345 |
| Interest | 35,570 | 0 | 81 | 35,651 |
| Tuition and Fees | 1,823,130 | 0 | 54 | 1,823,184 |
| Extracurricular Activities | 73,242 | 0 | 160,640 | 233,882 |
| Contributions and Donations | 3,175 | 0 | 198,392 | 201,567 |
| Charges for Services | 72,079 | 0 | 561,005 | 633,084 |
| Rentals | 77,015 | 0 | 0 | 77,015 |
| Payments in Lieu of Taxes | 562,500 | 0 | 0 | 562,500 |
| Miscellaneous | 764,512 | 0 | 128,879 | 893,391 |
| <i>Total Revenues</i> | <u>55,911,388</u> | <u>2,306,051</u> | <u>6,490,484</u> | <u>64,707,923</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 22,499,426 | 0 | 651,375 | 23,150,801 |
| Special | 7,639,482 | 0 | 1,489,948 | 9,129,430 |
| Vocational | 2,024,855 | 0 | 0 | 2,024,855 |
| Student Intervention | 1,252,324 | 0 | 0 | 1,252,324 |
| Support Services: | | | | |
| Pupil | 3,952,886 | 0 | 156,658 | 4,109,544 |
| Instructional Staff | 1,041,783 | 0 | 363,845 | 1,405,628 |
| Board of Education | 245,149 | 0 | 0 | 245,149 |
| Administration | 3,734,321 | 0 | 79,485 | 3,813,806 |
| Fiscal | 1,868,160 | 0 | 0 | 1,868,160 |
| Business | 373,691 | 0 | 0 | 373,691 |
| Operation and Maintenance of Plant | 6,358,975 | 0 | 63,068 | 6,422,043 |
| Pupil Transportation | 2,826,493 | 0 | 5,745 | 2,832,238 |
| Central | 1,001,980 | 0 | 24,215 | 1,026,195 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 0 | 0 | 1,760,829 | 1,760,829 |
| Other Non-Instructional Services | 25,929 | 0 | 1,092,838 | 1,118,767 |
| Extracurricular Activities | 992,482 | 0 | 234,268 | 1,226,750 |
| Capital Outlay | 9,575 | 938,992 | 1,423 | 949,990 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 0 | 725,000 | 725,000 |
| Interest and Fiscal Charges | 0 | 270,876 | 277,175 | 548,051 |
| <i>Total Expenditures</i> | <u>55,847,511</u> | <u>1,209,868</u> | <u>6,925,872</u> | <u>63,983,251</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>63,877</u> | <u>1,096,183</u> | <u>(435,388)</u> | <u>724,672</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 0 | 0 | 448,159 | 448,159 |
| Transfers Out | (448,159) | 0 | 0 | (448,159) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(448,159)</u> | <u>0</u> | <u>448,159</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | (384,282) | 1,096,183 | 12,771 | 724,672 |
| <i>Fund Balances (Deficit) Beginning of Year</i> | <u>8,893,759</u> | <u>(6,617,548)</u> | <u>1,591,862</u> | <u>3,868,073</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>\$8,509,477</u> | <u>(\$5,521,365)</u> | <u>\$1,604,633</u> | <u>\$4,592,745</u> |

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

| | |
|---|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$724,672 |
|---|------------------|

*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 are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

| | |
|---------------------------|--------------------|
| Capital Asset Additions | 1,034,153 |
| Current Year Depreciation | <u>(1,296,856)</u> |

| | |
|-------|-----------|
| Total | (262,703) |
|-------|-----------|

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

| | |
|---------------------------|-----------------|
| Delinquent Property Taxes | 3,311,097 |
| Grants | <u>(18,661)</u> |

| | |
|-------|-----------|
| Total | 3,292,436 |
|-------|-----------|

| | |
|---|---------|
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 725,000 |
|---|---------|

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:

| | |
|-------------------------------------|-----------------|
| Accrued Interest on Bonds | (1,971) |
| Amortization of Bond Premium | 27,962 |
| Amortization of Loss on Refunding | (16,610) |
| Amortization of Bond Issuance Costs | <u>(24,022)</u> |

| | |
|-------|----------|
| Total | (14,641) |
|-------|----------|

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

| | |
|--|----------------|
| | <u>108,766</u> |
|--|----------------|

| | |
|--|---------------------------|
| <i>Change in Net Assets of Governmental Activities</i> | <u><u>\$4,573,530</u></u> |
|--|---------------------------|

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Property Taxes | \$45,062,457 | \$45,234,342 | \$39,503,213 | (\$5,731,129) |
| Intergovernmental | 8,525,555 | 9,160,744 | 13,644,566 | 4,483,822 |
| Interest | 15,123 | 16,250 | 24,203 | 7,953 |
| Tuition and Fees | 1,132,225 | 1,216,846 | 1,822,789 | 605,943 |
| Extracurricular Activities | 45,764 | 49,174 | 73,242 | 24,068 |
| Charges for Services | 10,821 | 13,993 | 68,126 | 54,133 |
| Rentals | 563,409 | 564,942 | 32,940 | (532,002) |
| Payment in Lieu of Taxes | 351,468 | 377,654 | 562,500 | 184,846 |
| Miscellaneous | 12,995 | 53,274 | 956,307 | 903,033 |
| <i>Total Revenues</i> | <u>55,719,817</u> | <u>56,687,219</u> | <u>56,687,886</u> | <u>667</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 23,392,137 | 23,016,919 | 22,702,406 | 314,513 |
| Special | 8,184,212 | 8,261,843 | 8,256,186 | 5,657 |
| Vocational | 2,129,638 | 2,119,363 | 2,076,509 | 42,854 |
| Student Intervention | 1,290,721 | 1,280,885 | 1,252,324 | 28,561 |
| Support Services: | | | | |
| Pupil | 4,105,892 | 4,074,602 | 3,993,423 | 81,179 |
| Instructional Staff | 1,131,618 | 1,122,994 | 1,116,070 | 6,924 |
| Board of Education | 268,748 | 276,700 | 275,183 | 1,517 |
| Administration | 3,900,439 | 3,870,715 | 3,797,443 | 73,272 |
| Fiscal | 1,924,722 | 1,910,054 | 1,894,545 | 15,509 |
| Business | 380,143 | 379,246 | 378,527 | 719 |
| Operation and Maintenance of Plant | 6,745,412 | 6,694,007 | 6,640,763 | 53,244 |
| Pupil Transportation | 2,986,735 | 2,963,974 | 2,932,799 | 31,175 |
| Central | 1,099,981 | 1,136,598 | 1,132,453 | 4,145 |
| Operation of Non-Instructional Services: | | | | |
| Community Services | 26,724 | 26,520 | 25,929 | 591 |
| Extracurricular Activities | 1,046,713 | 1,038,737 | 1,015,575 | 23,162 |
| <i>Total Expenditures</i> | <u>58,613,835</u> | <u>58,173,157</u> | <u>57,490,135</u> | <u>683,022</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(2,894,018)</u> | <u>(1,485,938)</u> | <u>(802,249)</u> | <u>683,689</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 88,222 | 95,950 | 150,500 | 54,550 |
| Advances Out | (75,427) | (74,638) | (72,350) | 2,288 |
| Transfers Out | (530,916) | (526,368) | (513,159) | 13,209 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(518,121)</u> | <u>(505,056)</u> | <u>(435,009)</u> | <u>70,047</u> |
| <i>Net Change in Fund Balance</i> | <u>(3,412,139)</u> | <u>(1,990,994)</u> | <u>(1,237,258)</u> | <u>753,736</u> |
| <i>Fund Balance Beginning of Year</i> | 8,435,305 | 8,435,305 | 8,435,305 | 0 |
| Prior Year Encumbrances Appropriated | 490,178 | 490,178 | 490,178 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$5,513,344</u> | <u>\$6,934,489</u> | <u>\$7,688,225</u> | <u>\$753,736</u> |

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2012

| | |
|--|------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$83,007</u></u> |
| Liabilities | |
| Undistributed Monies | \$1,551 |
| Due to Students | <u>81,456</u> |
| <i>Total Liabilities</i> | <u><u>\$83,007</u></u> |

See accompanying notes to the basic financial statements

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 1 - Description of the School District and Reporting Entity

The South Euclid-Lyndhurst City School District (School District) is a body public and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's six instructional/support facilities which are staffed by 244 classified and 343 certificated personnel who provide services to 4,174 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District does not have any component units.

The School District participates in two jointly governed organizations and one insurance purchasing pool. These organizations are the North Coast Council, Ohio Schools Council, and Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 18 and 19 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

Fund Accounting

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

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

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Permanent Improvement Fund The permanent improvement fund accounts for and reports restricted property taxes and note proceeds to acquire, construct, or improve of such permanent improvements as are authorized by Chapter 5707 of the Ohio Revised Code.

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

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities.

Measurement Focus

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

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

Basis of Accounting

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

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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Budgetary Data

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

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

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2012, investments were limited to STAR Ohio. 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 net asset value per share, which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$35,570 which includes \$10,194 assigned from other School District funds.

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 School District are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund include money set aside for unclaimed monies. See Note 15 for additional information regarding set-asides.

Inventory

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

Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 10-40 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 10 years |

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 activities column of the statement of net assets.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School 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 in spendable 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.

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 School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State statute.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School 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.

Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. On the governmental fund statements, bond issuance costs are expended in the year the bonds are issued.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued.

Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method.

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 employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 20 years of current service with the School District and attaining the age of 40.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

Accrued Liabilities and Long-Term Obligations

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

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

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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net assets restricted for other purposes include resources restricted for athletic programs, education management information systems, entry-year programs, school-net professional development, miscellaneous state grant programs, drug free schools and miscellaneous federal grant programs.

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

Internal Activity

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are eliminated.

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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.

Note 3 - Change in Accounting Principle

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53" Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District's financial statements.

Note 4 – Accountability

At June 30, 2012, the following funds have deficit balances:

| | |
|--------------------------|-------------|
| Major Fund: | |
| Capital Projects Fund: | |
| Permanent Improvement | \$5,521,365 |
| Nonmajor Funds: | |
| Special Revenue Funds: | |
| Food Service | 26,069 |
| Alternative School Grant | 392 |
| Race to the Top | 15,305 |
| Title VI-B | 111,341 |
| Title I | 78,184 |
| Title VI-R | 17,128 |

The deficits in the nonmajor special revenue funds are caused by the recognition of expenditures on the modified accrual basis of accounting. The general fund is liable for any deficits in these funds and provides transfers when cash is required, rather than when accruals occur.

The deficit in the capital projects fund is the result of the issuance of anticipation notes which are used to finance projects until bonds are issued. Once the notes are retired or the bonds are issued, the deficits will be eliminated.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 5 – Fund Balances

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

| Fund Balances | General | Permanent Improvement | Nonmajor Governmental Funds | Total |
|---|--------------------|--------------------------|-----------------------------------|--------------------|
| <i>Nonspendable</i> | | | | |
| Unclaimed Monies | \$47,863 | \$0 | \$0 | \$47,863 |
| Prepays | 552,464 | 0 | 31,150 | 583,614 |
| Inventory | 9,370 | 0 | 2,228 | 11,598 |
| <i>Total Nonspendable</i> | 609,697 | 0 | 33,378 | 643,075 |
| <i>Restricted for</i> | | | | |
| Read for Ohio | 0 | 0 | 53,824 | 53,824 |
| Sixth Grade Camp | 0 | 0 | 329,904 | 329,904 |
| Athletics | 0 | 0 | 90,157 | 90,157 |
| Non-Public Schools | 0 | 0 | 129,354 | 129,354 |
| Technology Improvements | 0 | 0 | 15,132 | 15,132 |
| Teacher Development | 0 | 0 | 9,858 | 9,858 |
| Fiscal Stabilization | 0 | 0 | 5,789 | 5,789 |
| Special Education | 0 | 0 | 332 | 332 |
| English Proficiency | 0 | 0 | 22,633 | 22,633 |
| Preschool Education | 0 | 0 | 4,184 | 4,184 |
| Capital Projects | 0 | 0 | 1,008 | 1,008 |
| Debt Service | 0 | 0 | 1,190,164 | 1,190,164 |
| Total Restricted | 0 | 0 | 1,852,339 | 1,852,339 |
| <i>Assigned to</i> | | | | |
| Instructional Services | 519,458 | 0 | 0 | 519,458 |
| Other Purposes | 469,539 | 0 | 0 | 469,539 |
| Total Assigned | 988,997 | 0 | 0 | 988,997 |
| <i>Unassigned (Deficit)</i> | 6,910,783 | (5,521,365) | (281,084) | 1,108,334 |
| <i>Total Fund Balances (Deficit)</i> | \$8,509,477 | (\$5,521,365) | \$1,604,633 | \$4,592,745 |

Note 6 - Budgetary Basis of Accounting

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Investments are reported at cost (budget) rather than fair value (GAAP).
6. Budgetary revenues and expenditures of the public school support and stadium funds are classified to general fund for GAAP Reporting,

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

| Net Change in Fund Balance | |
|---|-----------------------------|
| | <u>General</u> |
| GAAP Basis | (\$384,282) |
| Net Adjustment for Revenue Accruals | 864,361 |
| Advances In | 150,500 |
| Beginning Fair Value Adjustment for Investments | 472 |
| Ending Fair Value Adjustment for Investments | (11,367) |
| Net Adjustment for Expenditure Accruals | (1,133,663) |
| Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses: | |
| Public School Support | (23,257) |
| Stadium | (7,951) |
| Advances Out | (72,350) |
| Adjustment for Encumbrances | <u>(619,721)</u> |
| Budget Basis | <u><u>(\$1,237,258)</u></u> |

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 7 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances 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.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Investments

As of June 30, 2012, the School District investments with STAR Ohio were \$4,419,442 and an average maturity of 52.5 days.

Credit Risk Star Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Interest Rate Risk The School District has no policy that addresses interest rate risk. State Statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, 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 payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in calendar year 2012 with real property taxes. Public utility real property is assessed at 35 percent of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2012, are available to finance fiscal year 2012 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 and public utility property taxes, which are measurable as of June 30, 2012, 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, 2012, was \$5,377,453 in the general fund, \$115,171 in the bond retirement debt service fund and \$249,325 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011, was \$5,952,390 in the general fund, \$145,532 in the bond retirement debt service fund and \$151,080 in the permanent improvement capital projects fund.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

| | 2011 Second Half Collections | | 2012 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$887,194,590 | 98.74 % | \$880,611,510 | 98.69 % |
| Public Utility Personal | 11,278,070 | 1.26 | 11,668,130 | 1.31 |
| Total | <u>\$898,472,660</u> | <u>100.00 %</u> | <u>\$892,279,640</u> | <u>100.00 %</u> |
| Tax rate per \$1,000 of assessed valuation | \$101.60 | | \$101.60 | |

Note 9 - Receivables

Receivables at June 30, 2012, consisted of taxes, accounts (rent and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. All receivables, except delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| <u>Governmental Activities</u> | <u>Amount</u> |
|------------------------------------|------------------|
| Title I IDEA-B Grant | \$159,339 |
| Nutrition Cluster | \$139,888 |
| Title I Grant | 130,092 |
| School Employees Retirement System | 100,836 |
| Miscellaneous Federal Grants | 57,219 |
| Education Jobs Grant | 5,845 |
| Preschool Grants | 5,590 |
| Title I School Improvement Grant | 4,838 |
| Technology Title II-A Grant | 3,818 |
| Race to the Top Grant | 2,435 |
| Local Grants | <u>1,932</u> |
| Total Governmental Activities | <u>\$611,832</u> |

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

| | Balance 6/30/11 | Additions | Deletions | Balance 6/30/12 |
|---|---------------------|--------------------|------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$660,393 | \$0 | \$0 | \$660,393 |
| Construction in Progress | 0 | 160,815 | 0 | 160,815 |
| <i>Total Capital Assets, not being depreciated</i> | 660,393 | 160,815 | 0 | 821,208 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 28,844,997 | 306,500 | 0 | 29,151,497 |
| Furniture and Equipment | 6,311,137 | 350,838 | 0 | 6,661,975 |
| Vehicles | 3,225,854 | 216,000 | 0 | 3,441,854 |
| <i>Total Capital Assets, being depreciated</i> | 38,381,988 | 873,338 | 0 | 39,255,326 |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Buildings and Improvements | (12,907,399) | (609,509) | 0 | (13,516,908) |
| Furniture and Equipment | (4,772,777) | (493,056) | 0 | (5,265,833) |
| Vehicles | (2,151,994) | (194,291) | 0 | (2,346,285) |
| <i>Total Accumulated Depreciation</i> | (19,832,170) | (1,296,856) | 0 | (21,129,026) |
| <i>Total Capital Assets, being depreciated, net</i> | 18,549,818 | (423,518) | 0 | 18,126,300 |
| Governmental Activities Capital Assets, Net | \$19,210,211 | (\$262,703) | \$0 | \$18,947,508 |

* Depreciation expense was charged to governmental functions as follow:

| | |
|--|--------------------|
| Instruction: | |
| Regular | \$695,553 |
| Special | 13,341 |
| Vocational | 159 |
| Support Services: | |
| Pupil | 4,673 |
| Instructional Staff | 40,017 |
| Administration | 15,631 |
| Fiscal | 2,306 |
| Business | 1,064 |
| Operation and Maintenance of Plant | 91,145 |
| Pupil Transportation | 181,829 |
| Central | 102,841 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 46,201 |
| Other Non-Instructional Services | 13,711 |
| Extracurricular Activities | 87,385 |
| Total Depreciation Expense | \$1,295,856 |

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The School District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate.

The School District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The School District maintains replacement cost insurance on buildings and contents in the amount of \$154,500,000.

Settled claims have not exceeded coverage within the last three years. There has not been a significant reduction in coverage from the prior years.

For fiscal year 2012, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniserve provides administration, cost control, and actuarial services to the GRP.

Note 12 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contributions

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

rate is allocated to the Health Care and Medicare B funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,216,163, \$1,591,892, and \$1,216,112, respectively. For fiscal year 2012, 63.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

State Teachers Retirement System

Plan Description – The School 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$3,259,293 and \$106,826 for the fiscal year ended June 30, 2012, \$3,280,302 and \$101,176 for the fiscal year ended June 30, 2011, and \$3,218,006 and \$136,843 for the fiscal year ended June 30, 2010. For fiscal year 2012, 82.45 percent has been contributed for the DB Plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$42,078 made by the School District and \$30,056 made by the plan members. In addition, member contributions of \$5,932 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 13 – Postemployment Benefits

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For the fiscal year ended June 30, 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for the year ended June 30, 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$142,981 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$195,649, \$193,407, and \$193,097, respectively. For fiscal year 2012, 63.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For the fiscal year ended June 30, 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$71,821, \$102,790, and \$72,547, respectively. For fiscal year 2012, 63.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to postemployment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$250,715, \$263,439, and \$247,544, respectively. For fiscal year 2012, 82.45 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal year 2011 and 2010.

Note 14 - Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees whose established contractual year is 240 days or more earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year earn twenty days of vacation annually. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Employee sick leave may be accumulated to a maximum number of days, classified employees, teachers and administrators have an unlimited number of days. Upon retirement, employees receive payment for a percentage of their total sick leave accumulation, up to a maximum number of days. Classified employees receive thirty percent of their total sick leave accumulation to a maximum of 75 days, teachers receive thirty percent of their total sick leave accumulation to a maximum of 70 days, and administrators receive thirty percent of their total sick leave to a maximum of 86 days.

Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem, in the amount of \$60,000 for all certified employees, \$50,000 for classified employees, and for administrators it is \$135,000.

The School District provides health insurance and dental coverage through Medical Mutual of Ohio and is subject to certain deductibles, co-pays, and maximum benefits as outlined in the plan. In order for employees to be eligible to receive health insurance coverage they must work at least twenty hours or more for classified employees and at least half-time for certified employees. Per negotiated agreement,

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

the premium is paid based on full time equivalency. If an employee is not full time, the School District pays a pro-rated share of the health insurance premium. The School District pays the dental premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

The School District provides vision coverage through VSP and is also subject to certain deductibles, co-pays and maximum benefits as outlined in the plan. In order for employees to be eligible to receive vision coverage they must work at least twenty hours or more for classified and at least half time for certified employees. Per the negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays the premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

Note 15 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for workers' compensation refunds. At June 30, 2012, capital improvements continues to be set-aside.

The following cash basis information describes the change in the fiscal year end set-aside amounts for capital acquisitions. Disclosure of this information is required by State statute.

| | <u>Capital Improvements</u> |
|--|---------------------------------|
| Set-Aside Reserve Balance as of June 30, 2011 | \$0 |
| Current Year Set-Aside Requirement | 731,241 |
| Qualifying Disbursements | <u>(2,091,759)</u> |
| Totals | <u>(\$1,360,518)</u> |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>\$0</u> |
| Set-Aside Reserve Balance as of June 30, 2012 | <u>\$0</u> |

While the qualifying disbursements during the fiscal year reduced the capital improvement set-aside amount to below zero, this amount may not be used to reduce the set-aside requirements of future fiscal years.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 16 – Short-Term Debt

The School District’s note activity, including amounts outstanding and interest rates are as follows:

| | Balance 6/30/2011 | Additions | Deletions | Balance 6/30/2011 |
|-----------------------------------|----------------------|-----------|---------------|----------------------|
| Permanent Improvement Fund | | | | |
| Tax Anticipation Note 2007 | \$7,390,000 | \$0 | (\$930,000) | \$6,460,000 |
| Unamortized Premium | 262,223 | 0 | (38,374) | 223,849 |
| Total Tax Anticipation Note | 7,652,223 | 0 | (968,374) | 6,683,849 |
| Building Fund | | | | |
| Bond Anticipation Note 2010 | 250,000 | 0 | (250,000) | 0 |
| <i>Total Short-Term Debt</i> | \$7,902,223 | \$0 | (\$1,218,374) | \$6,683,849 |

The energy conservation improvement bond anticipation note is backed by the full faith and credit of the School District and will mature within one year. The note liability is reflected in the fund which received the proceeds.

The tax anticipation notes will be paid from the permanent improvement capital project fund with property tax revenue. The notes were issued with a premium of \$422,115. The amortization of the premium for fiscal year 2012 was \$38,374. Principal and interest payments to retire the tax anticipation notes are as follows:

| | Principal | Interest | Total |
|------|-------------|-----------|-------------|
| 2013 | \$970,000 | \$273,350 | \$1,243,350 |
| 2014 | 1,005,000 | 233,850 | 1,238,850 |
| 2015 | 1,050,000 | 192,750 | 1,242,750 |
| 2016 | 1,090,000 | 144,500 | 1,234,500 |
| 2017 | 1,145,000 | 88,625 | 1,233,625 |
| 2018 | 1,200,000 | 30,000 | 1,230,000 |
| | \$6,460,000 | \$963,075 | \$7,423,075 |

Note 17 - Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District’s long-term obligations are:

| Debt Issue | Interest Rate | Issue Amount | Date of Maturity |
|-------------------------------------|-----------------|--------------|------------------|
| <i>General Obligation Bonds:</i> | | | |
| School Improvement Refunding - 2006 | | | |
| Serial Bonds | 4.00 - 5.00% | \$7,065,000 | December 1, 2016 |
| Capital Appreciation Bonds | 6.155 - 13.656% | 494,995 | December 1, 2010 |
| Term Bonds | 4.00% | 1,830,000 | December 1, 2018 |

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Changes in long-term obligations of the School District during fiscal year 2012, were as follows:

| | Principal Outstanding 6/30/11 | Additions | (Reductions) | Principal Outstanding 6/30/11 | Amount Due in One Year |
|---------------------------------------|-------------------------------------|-----------------|--------------------|-------------------------------------|------------------------------|
| Governmental Activities: | | | | | |
| General Obligations Bonds: | | | | | |
| School Improvement Refunding - 2006 | | | | | |
| Serial Bonds | \$4,705,000 | \$0 | (\$725,000) | \$3,980,000 | \$745,000 |
| Term Bonds | 1,830,000 | 0 | 0 | 1,830,000 | 0 |
| Unamortized Premium | 223,697 | 0 | (27,962) | 195,735 | 0 |
| Unamortized Loss | (132,881) | 0 | 16,610 | (116,271) | 0 |
| <i>Total General Obligation Bonds</i> | <u>6,625,816</u> | <u>0</u> | <u>(736,352)</u> | <u>5,889,464</u> | <u>745,000</u> |
| Compensated Absences | 3,621,184 | 83,219 | (191,985) | 3,512,418 | 913,817 |
| Total Governmental Activities | <u>\$10,247,000</u> | <u>\$83,219</u> | <u>(\$928,337)</u> | <u>\$9,401,882</u> | <u>\$1,658,817</u> |

General obligation bonds issued for the purpose of renovating and making additions to school buildings will be paid from property taxes in the debt service fund.

Compensated absences will be paid from the general fund, the food service, local grants, title VI-B, and title I special revenue funds.

2006 School Improvement Advance Refunding General Obligation Bonds

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term, and capital appreciation (deep discount) bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds.

The serial and term bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$210,005, which is being accreted annually until the point of maturity of the capital appreciation bonds which is 2010 through 2012.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2017 in the amount of \$900,000 with the balance of \$930,000 to be paid at stated maturity on December 1, 2018.

The School District's overall debt margin was \$69,001,483 with an unvoted debt margin of \$892,280 at June 30, 2012. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

| | Serial Bonds | | Term Bonds | | Total | |
|-----------|--------------|-----------|-------------|-----------|-------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$745,000 | \$170,150 | \$0 | \$72,000 | \$745,000 | \$242,150 |
| 2014 | 770,000 | 139,850 | 0 | 72,000 | 770,000 | 211,850 |
| 2015 | 795,000 | 104,575 | 0 | 72,000 | 795,000 | 176,575 |
| 2016 | 815,000 | 63,125 | 0 | 73,200 | 815,000 | 136,325 |
| 2018 | 855,000 | 21,375 | 0 | 73,200 | 855,000 | 94,575 |
| 2018-2019 | 0 | 0 | 1,830,000 | 73,800 | 1,830,000 | 73,800 |
| Total | \$3,980,000 | \$499,075 | \$1,830,000 | \$436,200 | \$5,810,000 | \$935,275 |

In 2006, the School District defeased 1993 and 1996 school improvement bond issues, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2012, \$5,945,000 of the defeased bonds are still outstanding.

Note 18 - Jointly Governed Organizations

North Coast Council

The North Coast Council (NCC) is a jointly governed organization among sixteen school districts, one educational service center and the South Euclid-Lyndhurst City School District. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among the member districts. Each of the school districts support NCC based on a per pupil charge. In fiscal year 2012, the School District paid \$133,324 to NCC.

The Governing Board consists of the superintendent from each of the participating school districts and the educational service center. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. A copy of NCC's financial statements may be obtained by contacting the Educational Service Center at 5811 West Canal Road, Valley View, Ohio 44125.

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 161 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's 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 is the policy making authority of the Council. The Board meets monthly September to 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 2012, the School District paid \$136,401 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the South Euclid-Lyndhurst City School District. 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.

In September/October 2009, 110 school districts joined a new OSC electricity discount program, Energy for Education III. The Energy for Education III Program provides a fixed price rate for electricity supplied by Duke Retail Energy Sales, Inc. of \$0.051 per kwh for the generation of electricity which cannot be increased until June 2012 meter reading. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

Note 19 – Insurance Purchasing Pool

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

Note 20 - Contingencies

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

Note 21 – Interfund Transfers and Balances

Interfund Transfers

The general fund transferred \$448,159 to the nonmajor other governmental funds. The transfers were made to support the activities of the funds.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Interfund Balances

Interfund balances at June 30, 2012, consist of the following individual fund receivables and payables:

| <u>Interfund Payable</u> | <u>Interfund Receivable</u> |
|------------------------------------|---------------------------------|
| | <u>General Fund</u> |
| Nonmajor Governmental Funds | |
| Local Grants | \$1,850 |
| Race to the Top | 8,000 |
| Title I | 10,500 |
| 21st Century | 52,000 |
| Total | <u><u>\$72,350</u></u> |

The interfund payables are advances for grant monies that were not received by fiscal year end and were for support to programs and projects in the special revenue funds. Advances will be repaid within one year.

Note 22 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

| | |
|-----------------------|---------------------------|
| General fund | \$621,450 |
| Permanent Improvement | 1,438,598 |
| Nonmajor funds | 239,820 |
| Total | <u><u>\$2,299,868</u></u> |

Note 23 – Subsequent Event

On August 16, 2012, the School District issued \$685,000 of Various Purpose General Obligation Bond Anticipation Notes. The notes were issued to pay the costs of installations, modifications, and remodeling of school buildings to conserve energy. The notes mature on August 15, 2013 and carry an interest rate of 1.125 percent.

**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
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District (the “District”) as of and for the year ended June 30, 2012, which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 20, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our 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 District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, 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 District’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.

Board of Education
South Euclid-Lyndhurst City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

This report is intended solely for the information and use of the Board of Education, management, the Auditor of State's Office, 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.

Cini & Panichi, Inc.

Cleveland, Ohio
December 20, 2012

**Independent Auditor's 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
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

Compliance

We have audited South Euclid-Lyndhurst City School District's (the "District") 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 District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 District'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 District's compliance with those requirements.

In our opinion, the District 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, 2012.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, 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.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the District's compliance but not to provide an opinion on the effectiveness of the District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Cimini & Panichi, Inc.

Cleveland, Ohio
December 20, 2012

South Euclid-Lyndhurst City School District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Year | Receipts | Non-cash Receipts | Disbursements | Non-cash Disbursements |
|---|---------------------|------------|------------------|-------------------|------------------|------------------------|
| U.S. Department of Agriculture: | | | | | | |
| Passed-Through Ohio Department of Education: | | | | | | |
| Nutrition Cluster: | | | | | | |
| National School Breakfast Program | 10.553 | 2012 | \$ 237,774 | \$ - | \$ 237,774 | \$ - |
| National School Lunch Program | 10.555 | 2012 | <u>637,899</u> | <u>78,837</u> | <u>637,899</u> | <u>78,837</u> |
| Total U.S. Department of Agriculture – Nutrition Cluster | | | <u>875,673</u> | <u>78,837</u> | <u>875,673</u> | <u>78,837</u> |
| U.S. Department of Education: | | | | | | |
| Passed-Through Ohio Department of Education: | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education Grants | 84.027 | 2011 | 73,485 | - | 81,232 | - |
| Special Education Grants | 84.027 | 2012 | <u>794,409</u> | <u>-</u> | <u>785,172</u> | <u>-</u> |
| Subtotal Special Education Grants | | | <u>867,894</u> | <u>-</u> | <u>866,404</u> | <u>-</u> |
| ARRA – Special Education Grants | 84.391 | 2011 | <u>114,667</u> | <u>-</u> | <u>113,713</u> | <u>-</u> |
| Preschool Grants | 84.173 | 2011 | 15,533 | - | 5,910 | - |
| Preschool Grants | 84.173 | 2012 | <u>33,621</u> | <u>-</u> | <u>32,976</u> | <u>-</u> |
| Subtotal Preschool Grant | | | <u>49,154</u> | <u>-</u> | <u>38,886</u> | <u>-</u> |
| ARRA – Preschool Grants | 84.392 | 2011 | <u>13,824</u> | <u>-</u> | <u>14,824</u> | <u>-</u> |
| Total Special Education Cluster | | | <u>1,045,539</u> | <u>-</u> | <u>1,033,827</u> | <u>-</u> |
| Title I Cluster | | | | | | |
| Title I Grants to Local Education Agencies | 84.010 | 2011 | 181,946 | - | 166,131 | - |
| Title I Grants to Local Education Agencies | 84.010 | 2012 | <u>739,955</u> | <u>-</u> | <u>730,370</u> | <u>-</u> |
| Subtotal Title I Grants to Local Education Agencies | | | 921,901 | - | 896,501 | - |
| ARRA – Title I Grants to Local Education Agencies | 84.389 | 2011 | <u>2,405</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Title I Cluster | | | <u>924,306</u> | <u>-</u> | <u>896,501</u> | <u>-</u> |
| Twenty-First Century Community Learning Centers | | | | | | |
| Twenty-First Century Community Learning Centers | 84.287 | 2011 | 77,640 | - | 73,599 | - |
| Twenty-First Century Community Learning Centers | 84.287 | 2012 | <u>125,159</u> | <u>-</u> | <u>128,084</u> | <u>-</u> |
| Total Twenty-First Century Community Learning Centers | | | <u>202,799</u> | <u>-</u> | <u>201,683</u> | <u>-</u> |
| English Language Acquisition Grants | 84.365 | 2012 | <u>9,896</u> | <u>-</u> | <u>626</u> | <u>-</u> |
| Improving Teacher Quality | 84.367 | 2011 | 23,575 | - | 18,939 | - |
| Improving Teacher Quality | 84.367 | 2012 | <u>88,745</u> | <u>-</u> | <u>83,342</u> | <u>-</u> |
| Total Improving Teacher Quality | | | <u>112,320</u> | <u>-</u> | <u>102,281</u> | <u>-</u> |
| ARRA – State Fiscal Stabilization Fund | 84.394 | 2011 | <u>-</u> | <u>-</u> | <u>13,178</u> | <u>-</u> |
| Education Jobs Fund | 84.410 | 2012 | <u>352,120</u> | <u>-</u> | <u>348,309</u> | <u>-</u> |
| ARRA – Race to the Top Fund | 84.395 | 2011 | - | - | 315 | - |
| ARRA – Race to the Top Fund | 84.395 | 2012 | <u>85,431</u> | <u>-</u> | <u>90,025</u> | <u>-</u> |
| Total ARRA – Race to the Top Fund | | | <u>85,431</u> | <u>-</u> | <u>90,340</u> | <u>-</u> |
| Total U.S. Department of Education | | | <u>2,732,411</u> | <u>-</u> | <u>2,686,745</u> | <u>-</u> |

Continued

The accompanying notes are an integral part of this schedule

South Euclid-Lyndhurst City School District

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Grant Year</u> | <u>Receipts</u> | <u>Non-cash Receipts</u> | <u>Disbursements</u> | <u>Non-cash Disbursements</u> |
|---|------------------------------------|-----------------------|---------------------|------------------------------|----------------------|-----------------------------------|
| U.S. Department of Health and Human Services Passed-Through Ohio Department of Mental Retardation and development Disabilities: Medicaid Assistance Program (CAFS) | 93.778 | 2012 | <u>83,719</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures of Federal Awards | | | \$ <u>3,691,803</u> | \$ <u>78,837</u> | \$ <u>3,562,418</u> | \$ <u>78,837</u> |

The accompanying notes are an integral part of this schedule

South Euclid-Lyndhurst City School District

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards of the South Euclid-Lyndhurst City School District (the "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.

Child Nutrition Cluster

Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed that federal monies are expended first.

Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

Community Alternative Funding System (CAFS) Settlement Amounts

The District received \$83,719 in CAFS reimbursement. These amounts relate to settlements for CAFS services provided during prior years.

South Euclid-Lyndhurst City School District

Schedule of Findings
OMB Circular A-133 Section .505

For the Year Ended June 30, 2012

1. Summary of Auditor's Results

| | | |
|--------------|--|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1) (v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under Section .510? | No |
| (d)(1)(vii) | Major Programs | Special Education Cluster: CFDA # 84.027, 84.391, 84.173, 84.392 Title I Cluster: CFDA # 84.010, 84.389 Education Jobs Fund: CFDA #84.410 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: >\$300,000 Type B: All Others |
| (d)(1)(ix) | Low Risk Auditee? | No |

2. Findings Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

None noted.

3. Findings for Federal Awards

None noted.

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Dave Yost • Auditor of State

SOUTH-EUCLID-LYN DHURST 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
FEBRUARY 14, 2013**