

**Willoughby-Eastlake City
School District**
Audited Financial Statements

June 30, 2008



Mary Taylor, CPA
Auditor of State

Board of Education
Willoughby-Eastlake City School District
37047 Ridge Road
Willoughby, Ohio 44094

We have reviewed the *Independent Auditor's Report* of the Willoughby-Eastlake City School District, Lake County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Willoughby-Eastlake City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 3, 2009

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WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 19, 2008

The Board of Education
Willoughby-Eastlake City School District
37047 Ridge Road
Willoughby, Ohio 44094

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Willoughby-Eastlake City School District (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 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 School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, 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 19, 2008, on our consideration of the School 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.

The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

Willoughby-Eastlake City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

The management's discussion and analysis of the Willoughby-Eastlake 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, 2008. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- Total net assets increased \$1,956,869. The increase in governmental activities is due to an increase in cash and cash equivalents due in part to the School District's overall increase in revenues.
- General revenues accounted for \$79,750,359 or 85 percent of all revenues for governmental activities. For governmental activities, program-specific revenues in the form of charges for services, sales, grants or contributions accounted for \$14,230,245 or 15 percent of total revenues of \$93,980,604.
- Total program expenses were \$92,023,735, with instruction representing 57 percent of total expenses.
- Capital assets decreased by \$833,763, with the value of capital additions offset by depreciation on older assets.
- Outstanding debt decreased by \$265,000 to \$1,190,000.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Willoughby-Eastlake City School District as 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 as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Willoughby-Eastlake City School District, the general fund is by far the most significant fund.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

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 2008?" The Statement of Net Assets and the Statement of Activities answer 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.

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 which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund. Data from other governmental funds are combined into a single, aggregated presentation.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The School District adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with its budget.

The governmental fund financial statements begin on page 14.

Proprietary Fund – The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 19.

Reporting the School District's Fiduciary Responsibilities

Fiduciary Funds – The School District's only fiduciary fund is for Student Managed Activities. The School District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District's other financial statements because the assets can't be used by the School District to finance operations. The fiduciary fund financial statement begins on page 22.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23.

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Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

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 2008 compared to 2007:

(Table 1)
Net Assets
Governmental Activities

	2008	Restated 2007
Assets		
Current and Other Assets	\$ 87,014,704	\$ 80,009,595
Capital Assets	16,384,825	17,218,588
<i>Total Assets</i>	103,399,529	97,228,183
Liabilities		
Total Current and Other Liabilities	61,909,899	57,629,335
Long-Term Liabilities:		
Due Within One Year	2,491,943	2,135,626
Due in More than One Year	9,370,440	9,792,844
<i>Total Liabilities</i>	73,772,282	69,557,805
Net Assets		
Invested in Capital Assets	16,384,825	17,218,588
Restricted:		
Set Asides	1,561,414	1,744,268
Capital Projects	1,901,384	1,678,227
Debt Service	564,747	532,495
Other Purposes	1,728,564	1,340,108
Unrestricted (Deficit)	7,486,313	5,156,692
<i>Total Net Assets</i>	\$ 29,627,247	\$ 27,670,378

Total assets increased by \$6,171,346. Equity in pooled cash and cash equivalents for increased by \$4,731,818 due to an increase in revenues over expenditures.

Total liabilities increased by \$4,214,477. The \$4,280,564 increase to current liabilities was primarily the result of increased deferred revenue due to a decrease in the amount of property taxes available for advance at fiscal year end.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

Table 2 shows the changes in net assets for fiscal year 2008 compared to fiscal year 2007.

(Table 2)
Change in Net Assets
Governmental Activities

	2008	Restated 2007
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 5,516,946	\$ 5,255,278
Operating Grants & Contributions	8,298,766	6,181,882
Capital Grants	414,533	112,135
<i>Total Program Revenues</i>	<u>14,230,245</u>	<u>11,549,295</u>
<i>General Revenue:</i>		
Property Taxes	53,109,757	55,435,671
Grants and Entitlements	23,278,503	24,256,077
Investment Earnings	1,389,131	1,421,528
Gain on Sale of Capital Assets	532,851	0
Miscellaneous	1,440,117	542,538
<i>Total General Revenues</i>	<u>79,750,359</u>	<u>81,655,814</u>
<i>Total Revenues</i>	<u>93,980,604</u>	<u>93,205,109</u>
Program Expenses		
Instruction	52,777,001	51,050,295
<i>Support Services:</i>		
Pupil and Instructional Staff	9,645,898	8,389,520
Board of Education, Administration, Fiscal and Business	7,723,225	7,307,891
Operation & Maintenance of Plant	8,503,241	7,953,395
Pupil Transportation	6,526,877	5,577,597
Central	1,326,078	1,159,536
<i>Operation of Non-Instruction Services:</i>		
Food Service	2,398,580	2,345,979
Community Services	1,085,569	1,899,161
Extracurricular Activities	1,970,616	1,753,812
Interest and Fiscal Charges	66,650	74,597
<i>Total Program Expenses</i>	<u>92,023,735</u>	<u>87,511,783</u>
Increase (Decrease) in Net Assets	1,956,869	5,693,326
<i>Net Assets Beginning of Year</i>	<u>27,670,378</u>	<u>21,977,052</u>
<i>Net Assets, End of Year</i>	<u><u>\$ 29,627,247</u></u>	<u><u>\$ 27,670,378</u></u>

Governmental Activities

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by voted millage does not increase as a result of inflation. For example, a homeowner with a home valued at \$100,000 (assessed value of \$35,000) and taxed at 1.0 mill would pay \$30.63 annually in taxes (net of state-paid rollback). If, years later, the home were reappraised and increased in market value to \$200,000 (assuming the market value of all homes in the taxing district doubled), the effective tax rate would become 0.5 mills and the homeowner would still pay \$30.63.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

Our School District, which is very dependent upon local property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 57 percent of revenues for governmental activities for Willoughby-Eastlake City Schools in fiscal year 2008.

The largest governmental activities program expense remains instruction, comprising 57 percent of expenses. When combined with pupil and instructional support, these categories make up 68 percent of total expenses. The \$4,511,952 increase in expenses was primarily due to salary and benefit increases, along with increases in transportation expenditures due to the rise in gasoline prices.

Interest expense was primarily attributable to the outstanding bonds for the School District.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services.

(Table 3)
Governmental Activities
Cost of Services

	2008	Restated 2007	2008	Restated 2007
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 52,777,001	\$ 51,050,295	\$ (46,381,812)	\$ (47,377,241)
Support Services:				
Pupil and Instructional Staff	9,645,898	8,389,520	(7,439,372)	(6,445,977)
Board of Education, Administration, Fiscal and Business	7,723,225	7,307,891	(7,666,675)	(7,003,880)
Operation and Maintenance of Plant	8,503,241	7,953,395	(8,160,589)	(7,710,284)
Pupil Transportation	6,526,877	5,577,597	(5,948,622)	(5,258,288)
Central	1,326,078	1,159,536	(1,256,105)	(1,063,296)
Operation of Non-Instructional	3,484,149	4,245,140	290,773	131,860
Extracurricular Activities	1,970,616	1,753,812	(1,164,438)	(1,160,785)
Interest and Fiscal Charges	66,650	74,597	(66,650)	(74,597)
Total Expenses	\$ 92,023,735	\$ 87,511,783	\$ (77,793,490)	\$ (75,962,488)

The dependence upon tax revenues for governmental activities is apparent. Property taxes cover 57 percent of all governmental activities. Our seven communities are responsible for the primary support for the School District.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The School District's Funds

Information about the School District's major funds starts on page 14. These governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, including other financing sources, of \$95,869,559 and expenditures, including other financing uses of \$94,410,027. The net change in fund balance for the year was most significant in the general fund, an increase of \$1,220,293. The increase in the general fund was due to revenues and other financing sources exceeding expenditures and other financing uses for the 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 2008, the School District amended its general fund budget several times to allow for changes in economic conditions.

For the general fund, the final budget-basis estimated revenue was \$83,207,226, \$6,357,800 over the original budget estimate of \$76,849,426. Total actual revenues were \$84,244,677, \$1,037,451 above the final budget estimate, due to conservative estimates for tax revenue.

The final budget-basis expenditures were \$85,461,072, \$4,602,200 above the original budget estimate of \$80,858,872. The change was due to anticipated severance payments. Total actual expenditures (cash outlays plus encumbrances) were \$82,870,783, \$2,590,289 below the final budget amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$16,384,825 invested in land, buildings and improvements, furniture and equipment, and vehicles. See Note 9 to the basic financial statements for additional information on capital assets.

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

	2008	Restated 2007	
Land	\$ 560,374	\$ 560,374	
Buildings and Improvements	12,688,506	13,352,324	
Furniture and Equipment	601,673	612,523	
Vehicles	2,534,272	2,693,367	
Totals	\$ 16,384,825	\$ 17,218,588	

The \$833,763 decrease in capital assets is due to current year depreciation and deletions exceeding capital outlays.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for instructional materials. For fiscal year 2008, this amounted to \$1,368,550 for each set aside. For fiscal 2008, the School District had qualifying disbursements for textbooks and instructional materials of \$1,551,404. The current year set-aside requirement is added to the set-aside reserve balance for fiscal year 2007 and the qualifying disbursements are subtracted to determine the required set-aside balance for fiscal year 2008. This required set-aside is reported in restricted net assets. The School District met the capital expenditure set-aside requirement by having a permanent improvement fund.

Debt

On August 1, 2003, the School District issued \$2,205,000 in library improvement bonds, which were used to refund the 1992 library improvement bonds. The current outstanding debt is \$1,190,000 for fiscal year 2008. At June 30, 2007, the outstanding debt was \$1,455,000. This decrease is due to the principal payments of \$265,000 made in fiscal year 2008.

See Note 15 to the basic financial statements for additional information on debt.

Current Issues

The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans to ensure financial stability. We are working within the five-year financial forecast, the five-year capital repairs and renovations plan, and the five-year enrollment projections. The School District has the necessary revenue base to support current program levels for the next three fiscal years, assuming the renewals of existing emergency levies. Beyond that time period, the District may have to consider an additional levy.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court has issued its fourth decision regarding school funding reform in Ohio. We believe that the ultimate resolution of funding reform is still some time away. The sudden downturn in the economy has put pressures on both the State budget as well as our local School District budget. We are concerned that the local tax base may be weakened as a result of the current economic conditions and therefore negatively impact local tax revenues. The ongoing legislative efforts to support the existence of community (charter) schools come at the expense of our current State subsidy. This year approximately \$619,000 will be deducted from our State subsidy and redirected to local community (charter) schools. Our School District has also been impacted by the continuing national trend of rapidly escalating employee benefit costs.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2008

The current fiscal plan recognizes the following open issues that must be addressed within the next five years:

- The renewal of the existing emergency levies (in 2009, 2012 and 2013)
- Judicial or legislative action on school funding reform
- Funding of the School District technology plan
- Development and funding of a technology replacement schedule
- Funding the educational improvement plan
- Updating the five-year forecast.

The School District has committed itself to a fiscal discipline based on long-term plans as well as commitment to full disclosure of financial information and utilization of the highest standards of financial reporting. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements.

Contacting the School District's Fiscal Management

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Cliff Reinhardt, Treasurer, can be contacted at the Willoughby-Eastlake City School District, 37047 Ridge Road, Willoughby, OH 44094, or by email at cliff.reinhardt@weschools.org.

Willoughby-Eastlake City School District

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 29,417,625
Receivables:	
Taxes	55,913,706
Accounts	199,331
Intergovernmental	1,401,508
Accrued Interest	63,687
Deferred Charges	18,847
Nondepreciable Capital Assets	560,374
Depreciable Capital Assets (Net)	<u>15,824,451</u>
<i>Total Assets</i>	<u>103,399,529</u>
Liabilities	
Accounts Payable	595,394
Accrued Wages and Benefits	8,365,968
Accrued Interest Payable	5,254
Intergovernmental Payable	2,953,809
Deferred Revenue	49,080,984
Claims Payable	908,490
Long Term Liabilities:	
Due Within One Year	2,491,943
Due In More Than One Year	<u>9,370,440</u>
<i>Total Liabilities</i>	<u>73,772,282</u>
Net Assets	
Invested in Capital Assets	16,384,825
Restricted for:	
Capital Outlay	1,901,384
Debt Service	564,747
Set Asides	1,561,414
Other Purposes	1,728,564
Unrestricted	<u>7,486,313</u>
<i>Total Net Assets</i>	<u>\$ 29,627,247</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 37,272,668	\$ 1,280,875	\$ 507,880	\$ 51,692	\$ (35,432,221)
Special	13,845,939	810,950	3,211,419	0	(9,823,570)
Vocational	1,303,010	0	147,057	0	(1,155,953)
Adult/Continuing	355,384	147,523	237,793	0	29,932
Support Services:					
Pupils	5,416,093	0	1,213,279	0	(4,202,814)
Instructional Staff	4,229,805	1,121	992,126	0	(3,236,558)
Board of Education	326,078	0	0	0	(326,078)
Administration	5,234,292	56,550	0	0	(5,177,742)
Fiscal	1,761,711	0	0	0	(1,761,711)
Business	401,144	0	0	0	(401,144)
Operation and Maintenance of Plant	8,503,241	41,797	35,012	265,843	(8,160,589)
Pupil Transportation	6,526,877	354,744	126,513	96,998	(5,948,622)
Central	1,326,078	0	69,973	0	(1,256,105)
Operation of Non-Instructional Services:					
Food Service Operations	2,398,580	1,476,384	876,277	0	(45,919)
Community Services	1,085,569	622,646	799,615	0	336,692
Extracurricular Activities	1,970,616	724,356	81,822	0	(1,164,438)
Interest and Fiscal Charges	66,650	0	0	0	(66,650)
Total Governmental Activities	\$ 92,023,735	\$ 5,516,946	\$ 8,298,766	\$ 414,533	(77,793,490)

General Revenues

Property Taxes Levied for:	
General Purposes	51,594,012
Debt Service	1,104,560
Capital Outlay	297,835
Other Purposes	113,350
Grants and Entitlements not Restricted to Specific Programs	23,278,503
Investment Earnings	1,389,131
Gain on Sale of Capital Assets	532,851
Miscellaneous	1,440,117
Total General Revenues	79,750,359
Change in Net Assets	1,956,869
Net Assets Beginning of Year (Restated, See Note 3)	27,670,378
Net Assets End of Year	\$ 29,627,247

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District

Balance Sheet

Governmental Funds

June 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 19,326,861	\$ 5,100,043	\$ 24,426,904
Restricted Cash and Cash Equivalents	1,561,414	0	1,561,414
Receivables:			
Taxes	54,425,625	1,488,081	55,913,706
Accounts	53,345	145,986	199,331
Interfund	443,700	0	443,700
Intergovernmental	509,819	891,689	1,401,508
Accrued Interest	<u>63,687</u>	<u>0</u>	<u>63,687</u>
<i>Total Assets</i>	<u>\$ 76,384,451</u>	<u>\$ 7,625,799</u>	<u>\$ 84,010,250</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 328,635	\$ 263,995	\$ 592,630
Accrued Wages and Benefits	7,779,124	586,844	8,365,968
Interfund Payable	0	443,700	443,700
Intergovernmental Payable	2,559,588	394,221	2,953,809
Deferred Revenue	<u>51,010,866</u>	<u>2,041,029</u>	<u>53,051,895</u>
<i>Total Liabilities</i>	<u>61,678,213</u>	<u>3,729,789</u>	<u>65,408,002</u>
Fund Balances			
Reserved for Encumbrances	1,233,932	279,575	1,513,507
Reserved for Property Taxes	3,856,932	107,847	3,964,779
Reserved for Textbooks/Instructional Materials	1,561,414	0	1,561,414
Unreserved, Undesignated, Reported in:			
General Fund	8,053,960	0	8,053,960
Special Revenue Funds	0	1,425,514	1,425,514
Debt Service Fund	0	534,727	534,727
Capital Projects Funds	<u>0</u>	<u>1,548,347</u>	<u>1,548,347</u>
<i>Total Fund Balances</i>	<u>14,706,238</u>	<u>3,896,010</u>	<u>18,602,248</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 76,384,451</u>	<u>\$ 7,625,799</u>	<u>\$ 84,010,250</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total Governmental Fund Balances		\$ 18,602,248
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,384,825
Delinquent property taxes are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$ 2,867,943	
Charges for Services	153,354	
Intergovernmental	<u>949,614</u>	
Total		3,970,911
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		2,518,053
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		18,847
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(5,254)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(1,190,000)	
Bond Premium	(43,949)	
Refunding Loss	25,043	
Early Retirement Incentive	(3,653,494)	
Compensated Absences	<u>(6,999,983)</u>	
Total		<u>(11,862,383)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 29,627,247</u></u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 50,652,766	\$ 1,488,784	\$ 52,141,550
Intergovernmental	24,857,842	6,375,342	31,233,184
Investment Income	1,357,990	31,141	1,389,131
Tuition and Fees	1,647,214	504,289	2,151,503
Extracurricular Activities	0	726,448	726,448
Rentals	225,379	0	225,379
Charges for Services	25,771	2,058,788	2,084,559
Contributions and Donations	0	260,363	260,363
Miscellaneous	1,319,696	118,195	1,437,891
<i>Total Revenues</i>	<u>80,086,658</u>	<u>11,563,350</u>	<u>91,650,008</u>
Expenditures			
Current:			
Instruction:			
Regular	36,778,070	1,364,189	38,142,259
Special	12,872,848	1,283,352	14,156,200
Vocational	1,200,106	65,894	1,266,000
Adult/Continuing	0	399,667	399,667
Support Services:			
Pupils	4,252,656	1,382,434	5,635,090
Instructional Staff	3,261,120	781,581	4,042,701
Board of Education	322,899	3,179	326,078
Administration	4,849,325	262,664	5,111,989
Fiscal	1,727,626	15,674	1,743,300
Business	427,060	5,913	432,973
Operation and Maintenance of Plant	6,864,277	1,796,885	8,661,162
Pupil Transportation	5,715,583	474,038	6,189,621
Central	1,234,209	130,636	1,364,845
Operation of Non-Instructional Services:			
Food Service Operations	0	2,476,424	2,476,424
Community Services	0	1,130,005	1,130,005
Extracurricular Activities	966,507	1,009,025	1,975,532
Debt Service:			
Principal Retirement	0	265,000	265,000
Interest and Fiscal Charges	0	67,356	67,356
<i>Total Expenditures</i>	<u>80,472,286</u>	<u>12,913,916</u>	<u>93,386,202</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(385,628)</u>	<u>(1,350,566)</u>	<u>(1,736,194)</u>
Other Financing Sources (Uses)			
Proceeds from Sales of Capital Assets	0	719,980	719,980
Transfers In	2,475,746	1,023,825	3,499,571
Transfers Out	(869,825)	(154,000)	(1,023,825)
<i>Total Other Financing Sources (Uses)</i>	<u>1,605,921</u>	<u>1,589,805</u>	<u>3,195,726</u>
<i>Net Change in Fund Balance</i>	1,220,293	239,239	1,459,532
<i>Fund Balances Beginning of Year (Restated, See Note 3)</i>	<u>13,485,945</u>	<u>3,656,771</u>	<u>17,142,716</u>
<i>Fund Balances End of Year</i>	<u>\$ 14,706,238</u>	<u>\$ 3,896,010</u>	<u>\$ 18,602,248</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake 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, 2008*

Net Change in Fund Balances - Total Governmental Funds \$ 1,459,532

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

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

Capital Asset Additions	\$ 211,699	
Current Year Depreciation	<u>(858,333)</u>	(646,634)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(187,129)

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

Delinquent Property Taxes	968,207	
Charges for Services	153,354	
Grants	<u>676,184</u>	1,797,745

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

265,000

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

Accrued Interest	718	
Amortization of Issuance Costs	(6,120)	
Amortization of Premium on Bonds	14,244	
Amortization of Refunding Loss	<u>(8,136)</u>	706

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

(527,330)

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

Compensated Absences	(742,005)	
Early Retirement Incentive	<u>536,984</u>	<u>(205,021)</u>

Change in Net Assets of Governmental Activities \$ 1,956,869

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake 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, 2008

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 49,678,223	\$ 52,200,114	\$ 54,415,519	\$ 2,215,405
Intergovernmental	22,805,659	26,025,261	25,036,566	(988,695)
Investment Income	1,275,373	1,455,424	1,400,133	(55,291)
Tuition and Fees	1,640,577	1,872,186	1,801,062	(71,124)
Rentals	204,639	233,529	224,657	(8,872)
Charges for Services	29,533	33,702	32,422	(1,280)
Miscellaneous	1,215,422	1,387,010	1,334,318	(52,692)
<i>Total Revenues</i>	<u>76,849,426</u>	<u>83,207,226</u>	<u>84,244,677</u>	<u>1,037,451</u>
Expenditures				
Current:				
Instruction:				
Regular	37,089,912	39,200,937	38,012,773	1,188,164
Special	12,780,280	13,507,688	13,098,276	409,412
Vocational	1,198,816	1,267,049	1,228,645	38,404
Support Services				
Pupils	4,202,999	4,442,219	4,307,577	134,642
Instructional Staff	3,190,111	3,371,681	3,269,487	102,194
Board of Education	575,681	608,447	590,005	18,442
Administration	4,695,765	4,963,031	4,812,604	150,427
Fiscal	1,675,239	1,770,588	1,716,922	53,666
Business	417,799	441,579	428,195	13,384
Operation and Maintenance of Plant	6,837,746	7,226,926	7,007,881	219,045
Pupil Transportation	5,803,095	6,133,386	5,947,486	185,900
Central	1,425,952	1,507,112	1,461,432	45,680
Extracurricular Activities	965,477	1,020,429	989,500	30,929
<i>Total Expenditures</i>	<u>80,858,872</u>	<u>85,461,072</u>	<u>82,870,783</u>	<u>2,590,289</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(4,009,446)</u>	<u>(2,253,846)</u>	<u>1,373,894</u>	<u>3,627,740</u>
Other Financing Sources (Uses)				
Refund of Prior Year Receipts	0	0	(569)	(569)
Advances In	98,600	98,600	98,600	0
Advances Out	(443,700)	(443,700)	(443,700)	0
Transfers Out	(869,825)	(869,825)	(869,825)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,214,925)</u>	<u>(1,214,925)</u>	<u>(1,215,494)</u>	<u>(569)</u>
<i>Net Change in Fund Balance</i>	(5,224,371)	(3,468,771)	158,400	3,627,171
<i>Fund Balance Beginning of Year</i>	12,521,148	12,521,148	12,521,148	0
Prior Year Encumbrances Appropriated	768,216	768,216	768,216	0
<i>Fund Balance End of Year</i>	<u>\$ 8,064,993</u>	<u>\$ 9,820,593</u>	<u>\$ 13,447,764</u>	<u>\$ 3,627,171</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2008

	Governmental Activities - Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,429,307
Liabilities	
Accounts Payable	2,764
Claims Payable	908,490
<i>Total Liabilities</i>	<u>911,254</u>
Net Assets	
Unrestricted	<u>\$ 2,518,053</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2008

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for Services	\$ 10,567,259
Operating Expenses	
Purchased Services	987,652
Claims	7,631,191
<i>Total Operating Expenses</i>	8,618,843
<i>Operating Income</i>	1,948,416
Transfers Out	(2,475,746)
<i>Change in Net Assets</i>	(527,330)
<i>Net Assets Beginning of Year</i>	3,045,383
<i>Net Assets End of Year</i>	\$ 2,518,053

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2008

	<u>Governmental Activities - Internal Service Fund</u>
<i>Decrease in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 10,567,259
Cash Paid for Goods and Services	(982,323)
Cash Paid for Claims	<u>(7,422,829)</u>
<i>Net Cash Provided By Operating Activities</i>	<u>2,162,107</u>
Cash Flows From Non-Capital Financing Activities	
Transfers to Other Funds	<u>(2,475,746)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(313,639)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,742,946</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 3,429,307</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 1,948,416
Adjustments:	
Decrease in Prepaid Items	5,305
Increase (Decrease) in Liabilities:	
Accounts Payable	422
Intergovernmental Payable	(398)
Claims Payable	<u>208,362</u>
<i>Total Adjustments</i>	<u>213,691</u>
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 2,162,107</u></u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 173,961
Liabilities	
Accounts Payable	\$ 862
Due to Students	173,099
<i>Total Liabilities</i>	<u>\$ 173,961</u>

The accompanying notes are an integral part of the basic financial statements.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 1 - Description of the School District and Reporting Entity

Willoughby-Eastlake City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five-member board and provides educational services as mandated by State and federal agencies. The board controls the School District's thirteen instructional facilities, staffed by 482 classified personnel, 591 certified full-time teaching personnel and 24 administrative employees to provide services to students and other community members.

The School District is located in Lake County, Ohio and includes the cities of Willoughby, Eastlake, Willoughby Hills and Willowick and the villages of Lakeline, Timberlake, and Waite Hill, Lake County, Ohio. The enrollment for the School District during the 2008 fiscal year was 8,810. The School District operates seven elementary schools (K-5), three middle schools (6-8), and three high schools (9-12).

Reporting Entity

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

Non-Public Schools – Within the School District boundaries, there are various non-public schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed by the School District on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity on the financial statements 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 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 a jointly governed organization and a related organization. These organizations are the Ohio Schools Council Association and the Willoughby-Eastlake Public Library. These organizations are discussed in Notes 16 and 17 to the basic financial statements.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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) applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and its internal service funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

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

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

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

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Proprietary Funds Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District utilizes an internal service fund to account for the operation of the School District's self-insurance program, for employee medical, surgical, prescription drug and dental benefits.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund that accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenditures) 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual 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 the 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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student 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, 2008, but which were levied to finance fiscal year 2009 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.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

E. Budgetary Process

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

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary 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 2008, investments were limited to STAROhio, certificates of deposit, money market accounts and a repurchase agreement.

StarOhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$1,357,990, which includes \$358,867 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.

G. 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 or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for textbooks. See Note 19 for additional information regarding set-asides.

H. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as expenditures when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

I. Capital Assets

The School District's only capital assets are general capital assets.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using appropriate price-level index to deflate the cost to acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. 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 the asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

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>Esstimated Lives</u>
Buildings and Improvements	20-99 Years
Furniture and Equipment	10-15 years
Vehicles	15 Years

J. 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.

K. Compensated Absences

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

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

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

L. 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, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2008, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities and grants.

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

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves have been established for encumbrances, property taxes and textbooks/ instructional materials.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for textbooks/instructional materials represents money required to be set aside by statute for the purchase of textbooks and instructional materials.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 2 - Summary of Significant Accounting Policies (Continued)

R. 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 – Changes in Accounting Principles and Restatement of Net Assets/Fund Balance

A. Changes in Accounting Principles

For the year ended 2008, the School District has implemented GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”, GASB Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*”, GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”, and GASB Statement No. 50, “*Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27.*”

GASB Statement No. 45 provides guidance on all aspects of OPEB reporting by employers. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*”, and GASB Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*”, to conform with requirements of GASB Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, and GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 3 – Changes in Accounting Principles and Restatement of Net Assets/Fund Balance (Continued)

B. Restatement of Net Assets/Fund Balance

Upon review of the Enterprise Funds, it was determined the charges for services generated by the Enterprise programs were not sufficient to cover the costs of the operations. Additionally, there was no debt pledged solely by net revenues from fees and charges, nor were there any laws or regulations requiring costs be recovered through fees and charges. Therefore, the School District has determined that Special Revenue Fund Type is a more appropriate classification for this activity. Accordingly, effective June 30, 2007, the entire Enterprise Fund Type has been eliminated and reclassified to the Special Revenue Fund Type. As a result, balances have been restated as follows:

<u>Statement of Net Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Assets, June 30, 2007	\$ 27,565,120	\$ 105,258	\$ 27,670,378
Reclassification of Business-Type Activities	<u>105,258</u>	<u>(105,258)</u>	<u>0</u>
Restated Net Assets, July 1, 2007	<u>\$ 27,670,378</u>	<u>\$ 0</u>	<u>\$ 27,670,378</u>

<u>Balance Sheet - Governmental Funds</u>	<u>Other Governmental Funds</u>
Fund Balance, June 30, 2007	\$ 3,371,541
Reclassification of Enterprise Funds Assets	646,104
Reclassification of Enterprise Funds Liabilities	<u>(360,874)</u>
Restated Fund Balance, July 1, 2007	<u>\$ 3,656,771</u>

Note 4 – Fund Deficits

The following funds had a deficit fund balance as of June 30, 2008:

Special Revenue Funds:	
Food Service	\$ 144,889
Preschool at Risk	3,769
Poverty Aid	165
Adult Basic Education	1,827
Title VI-B	147,555
Title III	5,950
Title I	41,223
Preschool Grant	4,220
Class Size Reduction	45,164

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 5 - 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 encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented on the budgetary basis for the general fund. The major differences between the budget basis and GAAP basis are:

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 1,220,293
Net Adjustment for Revenue Accruals	1,682,273
Advances In	98,600
Net Adjustment for Expenditure Accruals	(847,264)
Advances Out	(443,700)
Adjustment for Encumbrances	<u>(1,551,802)</u>
Budget Basis	<u>\$ 158,400</u>

Note 6 - Deposits and Investments

State statute classifies monies held by the School District into three categories.

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

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 6 - Deposits and Investments (Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any on time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

Note 6 - Deposits and Investments (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2008, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year-end, the carrying amount of the School District's deposits was \$28,786,459, which includes \$4,715 of cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2008, \$29,075,381 of the School District's bank balance of \$29,475,381 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2008, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAROhio	\$ 220,714	\$ 220,714
Repurchase Agreement	584,413	584,413
Total	<u>\$ 805,127</u>	<u>\$ 805,127</u>

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 6 - Deposits and Investments (Continued)

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

Credit Risk. STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District's investment in the repurchase agreement is unrated. The School District has no investment policy that specifically addresses credit risk.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in the State statute that prohibits payment for the investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2008:

Investment Type	Fair Value	Percent of Total
STAROhio	\$ 220,714	27.41%
Repurchase Agreement	584,413	72.59%
Total	\$ 805,127	100.00%

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 7 - Property Taxes (Continued)

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and 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, 2008 was \$3,856,932 in the general fund, \$22,149 in the bond retirement debt service fund, and \$85,698 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2007, was \$5,792,380 in the general fund, \$31,144 in the bond retirement debt service fund, and \$134,711 in the permanent improvement capital projects fund.

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

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 7 - Property Taxes (Continued)

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 1,702,883,540	90.38%	\$ 1,723,223,860	92.00%
Public Utility Personal	104,496,600	5.55%	96,092,970	5.13%
Tangible Personal Property	76,667,306	4.07%	53,789,072	2.87%
Total Assessed Values	\$ 1,884,047,446	100.00%	\$ 1,873,105,902	100.00%
 Taxrate per \$1,000 of assessed valuation	 \$ 48.52		 \$ 49.45	

Note 8 - Receivables

Receivables at June 30, 2008, consisted of taxes, accounts (rent, student fees and tuition), accrued interest, interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal Funds. All receivables, except 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.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Restated Balance 06/30/2007	Additions	Deletions	Balance 06/30/2008
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 560,374	\$ 0	\$ 0	\$ 560,374
 <i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	27,824,932	29,000	(366,846)	27,487,086
Furniture and Equipment	1,680,426	62,668	0	1,743,094
Vehicles	5,399,786	120,031	(121,328)	5,398,489
Total Capital Assets Being Depreciated	34,905,144	211,699	(488,174)	34,628,669
 <i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(14,472,608)	(505,689)	179,717	(14,798,580)
Furniture and Equipment	(1,067,903)	(73,518)	0	(1,141,421)
Vehicles	(2,706,419)	(279,126)	121,328	(2,864,217)
Total Accumulated Depreciation	(18,246,930)	(858,333) *	301,045	(18,804,218)
Total Capital Assets Being Depreciated, Net	16,658,214	(646,634)	(187,129)	15,824,451
Governmental Activities Capital Assets, Net	\$ 17,218,588	\$ (646,634)	\$ (187,129)	\$ 16,384,825

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 241,198
Special	1,393
Support Services:	
Administration	25,177
Fiscal	367
Business	360
Operation and Maintenance of Plant	26,335
Pupil Transportation	537,336
Central	3,532
Operation of Non-Instructional Services:	
Food Service Operations	1,117
Community Services	8,271
Extracurricular Activities	13,247
Total Depreciation Expense	\$ 858,333

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 10 – Interfund Transactions

A. Interfund Transfers

Each month the School District transfers money from the general fund to the athletic and music fund to cover the cost of salaries and benefits for coaches, cost of officials for games and transportation of athletes. Each elementary school that has a latchkey/preschool program transfers money back to that school’s public school support fund to cover their portion of general costs paid for from that fund. Additionally, the general fund transferred \$510,000 to the permanent improvement capital projects fund to cover various capital improvements. The \$2,475,746 transfer from the self-insurance internal service fund to the general fund was made to reduce the cash reserve. The cash reserve was reduced based on the opinion of the School District’s actuary. Since this transfer was made for GAAP financial reporting purposes, it will not show on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP basis) and Actual.

Transfers made during the year ended June 30, 2008 were as follows:

Transfer To:	Transfer From:			Total
	General	Latchkey/ Preschool	Self- Insurance	
General	\$ 0	\$ 0	\$ 2,475,746	\$2,475,746
Public School Support	0	154,000	0	154,000
Athletics and Music	359,825	0	0	359,825
Permanent Improvement	510,000	0	0	510,000
<i>Total</i>	<u>\$ 869,825</u>	<u>\$ 154,000</u>	<u>\$ 2,475,746</u>	<u>\$3,499,571</u>

B. Interfund Balances

At the end of the fiscal year the School District advanced money from the general fund to other funds to provide additional resources for current operations. Interfund balances at June 30, 2008 consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General Fund
Nonmajor Funds:	
Permanent Improvement	\$ 410,500
Ohio Reads	25,000
Title V	8,200
Total	<u>\$ 443,700</u>

All advances are expected to be repaid within one year.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the School District was part of a group purchasing consortium of public school districts in Northeast Ohio. The consortium placed coverage through the Ohio Casualty Insurance Company group affinity program. The company carried the property insurance (which includes inland marine, earthquake, and crime), the fleet insurance and covered the boilers and machinery.

The School District contracted with Ohio Casualty for liability coverage with limits of liability of \$1,000,000 per claim and \$2,000,000 aggregate to insure the School District, the board members, all administrators, certified and classified employees and volunteers. Additionally, the School District purchased an umbrella policy for an additional \$6,000,000 coverage.

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The School District pays a premium to the State based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Corvel, Inc. provides administrative cost control and actuarial services to the School District.

C. Employee Medical Benefits

The School District provides medical, surgical, prescription drug and dental benefits to its employees on a self-insured basis. A third party, Medical Mutual, reviews all claims which are then paid by the School District. A premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District maintains stop-loss coverage for its insurance program. Aggregate stop-loss is maintained at \$6,433,924 for the one year period ending October 31, 2008.

The claims liability of \$908,490 reported in the internal service fund at June 30, 2008 is estimated by the third-party administrator and is based on the requirements of *Governmental Accounting Standards Board Statement No. 30*, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 11 - Risk Management (Continued)

Changes in the fund's claims liability amount for the last two fiscal years is listed as follows:

		<u>Balance</u> <u>Beginning of Year</u>		<u>Current</u> <u>Year Claims</u>		<u>Claims</u> <u>Payments</u>		<u>Balance</u> <u>End of Year</u>
2007	\$	2,394,409	\$	5,162,707	\$	6,856,988	\$	700,128
2008	\$	700,128	\$	7,631,191	\$	7,422,829	\$	908,490

Note 12 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The School District’s contributions to SERS for the years ended June 30, 2008, 2007 and 2006 were \$1,852,344, \$1,250,518 and \$1,579,064, respectively; 53 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 12 – Defined Benefit Pension Plans (Continued)

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

A DB or Combined Plan member with five or more years 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007 (the latest information available), the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$5,581,680, \$5,003,531 and \$5,135,929, respectively; 85 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 13 - Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The School District’s contributions for fiscal years ended June 30, 2008, 2007 and 2006 were \$398,691, \$384,887 and \$395,071, respectively.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 (the latest information available), the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 eligible benefit recipients.

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 was \$93.50; SERS’ reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007 (the latest information available), the actuarially required allocation was .68 percent. The School District’s contributions for the year ended June 30, 2008 were \$89,970, which equaled the required contributions for the year.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS’ Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO’s, PPO’s and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS’ postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 13 - Postemployment Benefits (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 3.32 percent. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest information available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The School District's contributions for the years ended June 30, 2008, 2007 and 2006 were \$624,583, \$570,646 and \$551,372, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Note 14 - Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and a quarter days per month. Upon retirement, an employee is paid for 30 percent of accumulated sick days up to a maximum of 260 accumulated sick days.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 14 - Employee Benefits (Continued)

B. Early Retirement Incentive Payable

Classified Employees

A retiree receives severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of 260 days plus converted personal days. Payment is made in one lump sum within 60 days of the effective date of retirement. The rate of pay is that of the highest daily rate of the employee's highest year in the preceding ten years. Any employee who is currently eligible for retirement with SERS may receive a retirement incentive bonus if certain qualifications are met. The eligible employee receives \$5,000 if he/she retires in accordance with program guidelines by July 1 of their first year of eligibility. Eligible employees who choose not to retire in their first year of eligibility but retire by July 1 of their second year receive an incentive of \$2,500. An employee who chooses to retire after the second year will not be eligible to receive any retirement bonus. The incentive bonus will be made in two payments beginning January of the next two succeeding years with 60 percent paid on the first payment and 40 percent in the second payment.

Certified Employees

A retiree receives severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of the 260 days plus converted personal days. An early retirement incentive of \$40,000 and a health reimbursement account (HRA) of \$30,000 is paid to those teachers who retire in their first year of eligibility for retirement. The incentive bonus is paid in equal installments in the five Januaries following the date of retirement and paid as a reimbursement upon the presentation of receipts for qualifying medical expenses.

C. Life Insurance

The School District provides life insurance in the amount of \$50,000 to employees (excluding substitutes) who regularly work a minimum of 20 hours per week. Employees are also given the option to purchase additional term life insurance through a payroll deduction.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Restated Balance 06/30/2007	Additions	Deductions	Balance 06/30/2008	Amounts Due Within One Year
Governmental Activities					
2003 - \$2,205,000, 6%					
Library Improvement Refunding					
Bonds	\$ 1,455,000	\$ 0	\$ (265,000)	\$ 1,190,000	\$ 275,000
Unamortized Premium	58,193	0	(14,244)	43,949	0
Unamortized Refunding Loss	(33,179)	0	8,136	(25,043)	0
Early Retirement Incentive	4,190,478	854,427	(1,391,411)	3,653,494	1,694,929
Compensated Absences	6,257,978	1,211,411	(469,406)	6,999,983	522,014
Total Governmental Activities					
<i>Long-Term Obligations</i>	<u>\$ 11,928,470</u>	<u>\$ 2,065,838</u>	<u>\$ (2,131,925)</u>	<u>\$ 11,862,383</u>	<u>\$ 2,491,943</u>

On August 1, 2003, the School District issued \$2,205,000 in library improvement refunding bonds with interest rates varying from 2.50 percent to 6.00 percent. Proceeds were used to refund \$2,205,000 of the outstanding 1991 Library Improvement Bonds.

The bonds were issued at a premium of \$113,982. Proceeds of \$2,270,045 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the 1991 Library Improvement Bonds. As a result, \$1,455,000 of these bonds is considered defeased. The principal balance outstanding on the defeased bonds was \$1,250,000 at June 30, 2008.

The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$65,045. The difference, being reported as a reduction in bonds payable, is being charged to operations through year 2012 using the straight-line method.

The early retirement incentive and compensated absences will be paid from the General Fund.

Principal and interest requirements to retire the bond outstanding at June 30, 2008 are as follows:

Fiscal Year	Library Improvement Refunding Bonds		
	Principal	Interest	Total
2009	\$ 275,000	\$ 58,237	\$ 333,237
2010	285,000	45,231	330,231
2011	305,000	28,269	333,269
2012	325,000	9,750	334,750
Total	<u>\$ 1,190,000</u>	<u>\$ 141,487</u>	<u>\$ 1,331,487</u>

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 16 – Jointly Governed Organization

The Ohio Schools Council Association (Council) is a jointly governed organization among 108 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the board. In fiscal year 2008, the School District paid \$2,590 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

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

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

Note 17 – Related Organization

The Willoughby-Eastlake Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Willoughby-Eastlake City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Willoughby-Eastlake Public Library, Ms. Suzan Bocciarelli, Clerk/Treasurer, at 263 East 305 Street, Willowick, Ohio 44095.

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

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

Note 19 - Set-Asides

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

The following cash basis information describes the change in the set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Improvements
Set-aside Reserved Balance as of June 30, 2007	\$ 1,744,268	\$ 0
Current Year Set-aside Requirement	1,368,550	1,368,550
Current Year Offsets	0	(1,692,661)
Qualifying Disbursements	(1,551,404)	0
Totals	\$ 1,561,414	\$ (324,111)
Set-aside Balance Carried		
Forward to Future Fiscal Years	\$ 1,561,414	\$ 0
Set-aside Reserve Balance as of June 30, 2008	\$ 1,561,414	\$ 0

The School District did not have qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero, and is required to establish a fund balance reserve. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years.

Willoughby-Eastlake City School District

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Report Letters

June 30, 2008

WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 19, 2008

To the Board of Education
Willoughby-Eastlake City School District
37047 Ridge Road
Willoughby, Ohio 44094

INDEPENDENT AUDITOR'S 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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Willoughby-Eastlake City School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Willoughby-Eastlake City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Willoughby-Eastlake City School District in a separate letter dated December 19, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willoughby-Eastlake City School 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*. However, we also noted certain immaterial instances that we have reported to management of Willoughby-Eastlake City School District in a separate letter dated December 19, 2008.

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

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 19, 2008

The Board of Education
Willoughby-Eastlake City School District
37047 Ridge Road
Willoughby, Ohio 44094

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Willoughby-Eastlake City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Willoughby-Eastlake City School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Willoughby-Eastlake City School District's management. Our responsibility is to express an opinion on Willoughby-Eastlake City School 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 Circulars 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 Willoughby-Eastlake City School 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 on the Willoughby-Eastlake City School District's compliance with those requirements.

In our opinion, Willoughby-Eastlake City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Willoughby-Eastlake City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Willoughby-Eastlake City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Willoughby-Eastlake City School Districts' internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Willoughby-Eastlake City School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of the Willoughby-Eastlake City School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Rea & Associates, Inc.

Willoughby-Eastlake City School District
Lake County
Schedule of Expenditures of Federal Awards - Cash Basis
For the Fiscal Year Ended June 30, 2008

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster				
Special Education - Grants to States	2007	84.027	\$ 122,502	\$ 195,249
Special Education - Grants to States	2008	84.027	1,627,259	1,602,758
Total Special Education - Grants to States			<u>1,749,761</u>	<u>1,798,007</u>
Special Education - Preschool Grants	2007	84.173	14,656	16,127
Special Education - Preschool Grants	2008	84.173	46,973	45,883
Total Special Education - Preschool Grants			<u>61,629</u>	<u>62,010</u>
Total Special Education Cluster			<u>1,811,390</u>	<u>1,860,017</u>
Adult Education - State Grant Program	2008	84.002	38,761	38,761
Adult Education - State Grant Program	2007	84.002	6,953	3,350
Adult Education - State Grant Program	2008	84.002	16,620	15,789
Total Adult Education - State Grant Program			<u>62,334</u>	<u>57,900</u>
English Language Acquisition Grant	2007	84.365	8,036	8,972
English Language Acquisition Grant	2008	84.365	33,854	33,392
Total English Language Acquisition Grant			<u>41,890</u>	<u>42,364</u>
Title 1 Grants to Local Educational Agencies	2007	84.010	19,041	109,584
Title 1 Grants to Local Educational Agencies	2008	84.010	813,694	799,755
Total Title 1 Grants to Local Educational Agencies			<u>832,735</u>	<u>909,339</u>
State Grants for Innovative Programs	2008	84.298	13,589	12,782
Total State Grants for Innovative Programs			<u>13,589</u>	<u>12,782</u>
Safe and Drug-Free S and C - State Grants	2007	84.186	0	4,220
Safe and Drug-Free S and C - State Grants	2008	84.186	29,747	28,449
Total Safe and Drug-Free Schools and Communities			<u>29,747</u>	<u>32,669</u>
Improving Teacher Quality State Grant	2007	84.367	8,790	9,643
Improving Teacher Quality State Grant	2008	84.367	302,082	279,135
Total Improving Teacher Quality State Grant			<u>310,872</u>	<u>288,778</u>
Education Technology State Grant	2007	84.318	1,742	2,278
Education Technology State Grant	2008	84.318	9,700	8,819
Total Education Technology State Grant			<u>11,442</u>	<u>11,097</u>
<i>Passed Through Mentor Exempted Village School District:</i>				
Vocational Education - Basic Grants to State	2007	84.048	6,604	16,106
Vocational Education - Basic Grants to State	2008	84.048	144,905	119,996
Total Vocational Education - Basic Grants to State			<u>151,509</u>	<u>136,102</u>
<i>Direct Grant:</i>				
Federal Pell Grant Program	P063P024249	84.063	178,800	178,800
<i>Direct Grant:</i>				
Advanced Placement	N/A	84.330	250	250
Total U.S. Department of Education			3,444,558	3,530,098

**Willoughby-Eastlake City School District
Lake County
Schedule of Expenditures of Federal Awards - Cash Basis
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Federal Receipts	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program (A)(B)		10.555	\$ 126,461	\$ 126,461
Cash Assistance:				
School Breakfast Program (B)	2007	10.553	6,713	6,713
School Breakfast Program (B)	2008	10.553	6,270	6,270
National School Lunch Program (B)	2007	10.555	358,894	358,894
National School Lunch Program (B)	2008	10.555	356,739	356,739
<i>Cash Assistance Subtotal</i>			<u>728,616</u>	<u>728,616</u>
Total Child Nutrition Cluster			<u>855,077</u>	<u>855,077</u>
Total U.S. Department of Agriculture			855,077	855,077
<u>U.S. DEPARTMENT OF LABOR</u>				
<i>Passed Through the City of Cleveland:</i>				
WIA Adult Program	2007	17.258	4,421	0
WIA Adult Program	2008	17.258	155,701	47,282
Total WIA Adult Program			<u>160,122</u>	<u>47,282</u>
<i>Passed Through the Lake County ETA:</i>				
WIA Youth Activities	2007	17.259	10,758	2,263
WIA Youth Activities	2008	17.259	164,686	168,934
Total WIA Youth Activities			<u>175,444</u>	<u>171,197</u>
Total U.S. Department of Labor			335,566	218,479
<u>CORPORATION FOR NATIONAL & COMMUNITY SERVICES</u>				
<i>Direct Grant:</i>				
Retired and Senior Volunteer Program	N/A	94.002	63,367	63,367
Total Corporation for National & Community Services			63,367	63,367
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through the Ohio MRDD:</i>				
Medical Assistance Program (CAFS)	N/A	93.778	13,964	0
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,712,532</u>	<u>\$ 4,667,021</u>

(A) Government commodities are reported at the entitlement value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(CAFS) Community Alternative Funding System Medicaid revenues received during fiscal year 2008 were \$13,964.

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies 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 (list):	Special Education Cluster 84.027 & 84.173;
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes – approved by the federal cognizant agency

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2007-001	Numerous adjustments to the Financial Statements discovered during the audit	Yes	



Mary Taylor, CPA
Auditor of State

WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 17, 2009