



Dave Yost • Auditor of State



**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED JUNE 30, 2011**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Dave Yost**  
Auditor of State

December 27, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The management's discussion and analysis of Solon City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- The District reclassified former business-type activities and enterprise funds to governmental activities and governmental funds during fiscal year 2011. Fund balances and net assets at June 30, 2010 have been restated to reflect the fund reclassifications as described in Note 3.B. Net assets of governmental activities increased \$8,483,966, which represents a 29.20% increase from the restated 2010 balance.
- General revenues for governmental activities, accounted for \$72,937,492 in revenue or 91.70% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,604,877 or 8.30% of total governmental activities revenues of \$79,542,369.
- The District had \$71,058,403 in expenses related to governmental activities; only \$6,604,877 of these expenses was offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$72,937,492 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and permanent improvement fund. The general fund had \$69,203,260 in revenues and other financing sources and \$65,359,758 in expenditures and other financing uses. The general fund's fund balance increased \$3,843,502 from a restated balance of \$7,427,964 to \$11,271,466.
- The debt service fund had \$3,316,138 in revenues and \$3,011,153 in expenditures. The debt service fund's fund balance increased \$304,985 from \$2,070,133 to \$2,375,118.
- The permanent improvement fund had \$2,446,659 in revenues and \$1,870,041 in expenditures. The permanent improvement fund's fund balance increased \$576,618 from \$8,920,917 to \$9,497,535.

**Using the Basic Financial Statements (BFS)**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Reporting the District as a Whole**

**Statement of net assets and the statement of activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

On the statement of net assets and in the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

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

**Fund Financial Statements**

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and permanent improvement fund.

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**Proprietary Funds**

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for a self-insurance program which provides medical, dental and vision benefits to employees. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**Reporting the District's Fiduciary Responsibilities**

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-62 of this report.

**The District as a Whole**

The statement of net assets provides the perspective of the District as a whole. The District restated net assets as described in Note 3.B. The table below provides a summary of the District's net assets for 2011 and 2010.

**Net Assets of Governmental Activities**

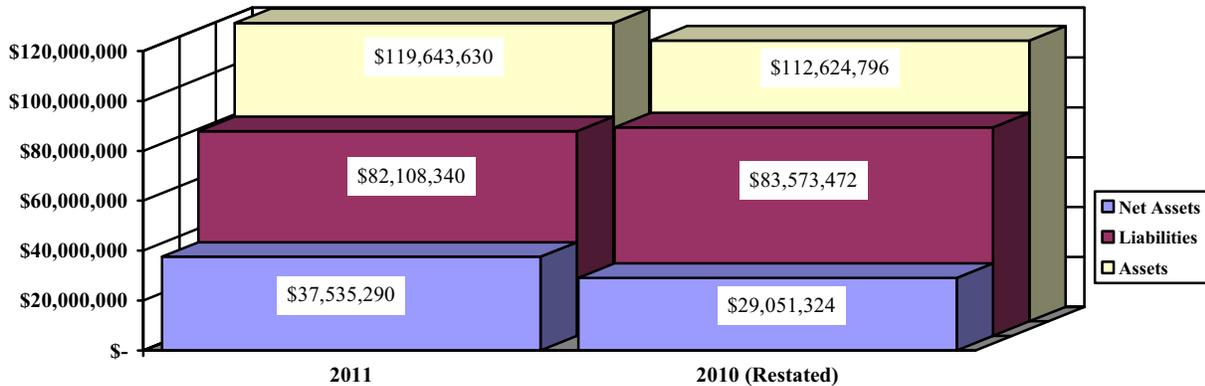
	<u>2011</u>	<u>Restated 2010</u>
<b><u>Assets</u></b>		
Current assets	\$ 84,098,997	\$ 77,157,416
Capital assets, net	35,544,633	35,467,380
Total assets	<u>119,643,630</u>	<u>112,624,796</u>
<b><u>Liabilities</u></b>		
Current liabilities	54,608,004	53,435,564
Long-term liabilities	27,500,336	30,137,908
Total liabilities	<u>82,108,340</u>	<u>83,573,472</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of debt	17,489,888	15,214,893
Restricted	13,220,714	13,220,326
Unrestricted	6,824,688	616,105
Total net assets	<u>\$ 37,535,290</u>	<u>\$ 29,051,324</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

Total governmental activities net assets increased \$8,483,966. Total assets of the District's governmental activities increased \$7,018,834 from June 30, 2010. Current assets increased approximately \$6.9 million primarily due to an increase in cash and investments of approximately \$3.6 million and taxes receivable of approximately \$2.9 million both of which were directly related to increased taxes from the passage of the 6.9 mill continuing operating levy in the May 2010 election. Collections on this levy began in calendar year 2011. The increase in taxes receivable was offset by an increase in unearned revenue of approximately \$1.4 million (a liability). The District's long-term liabilities decreased approximately \$2.6 million, which explains a majority of the decrease in liabilities of approximately \$1.4 million.

**Governmental Activities**



The table below shows the changes in net assets for fiscal year 2011 and 2010.

**Change in Net Assets**

	Governmental Activities	
	2011	Restated 2010
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 3,309,868	\$ 3,580,449
Operating grants and contributions	3,290,011	3,026,007
Capital grants and contributions	4,998	-
General revenues:		
Property taxes	53,086,129	47,280,671
Grants and entitlements	18,638,805	18,599,016
Payment in lieu of taxes	741,815	315,005
Investment earnings	111,360	359,547
Other	359,383	367,684
<b>Total revenues</b>	<u>79,542,369</u>	<u>73,528,379</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
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	Governmental Activities	
	2011	Restated 2010
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	33,389,714	35,783,029
Special	7,524,357	7,948,383
Vocational	626,621	580,933
Adult/continuing	151,606	162,038
Other	817,045	603,661
Support services:		
Pupil	4,711,248	4,475,910
Instructional staff	1,733,269	1,757,308
Board of Education	33,207	49,986
Administration	3,215,158	3,988,101
Fiscal	1,787,602	1,693,113
Business	1,037,134	1,147,994
Operations and maintenance	6,377,142	8,134,230
Pupil transportation	3,821,166	3,298,628
Central	944,112	1,132,837
Operation of non-instructional services	434,552	406,599
Food service	1,824,354	1,757,244
Extracurricular activities	1,824,325	1,844,947
Interest and fiscal charges	805,791	835,173
Total expenses	71,058,403	75,600,114
Changes in net assets	8,483,966	(2,071,735)
Net assets at beginning of year (restated)	29,051,324	31,123,059
Net assets at end of year	\$ 37,535,290	\$ 29,051,324

**Governmental Activities**

The net assets of the District's governmental activities increased \$8,483,966. Total governmental expenses of \$71,058,403 were offset by program revenues of \$6,604,877 and general revenues of \$72,937,492. Program revenues supported 9.29% of the total governmental expenses. The increase in governmental activities net assets is primarily due to the increase in tax revenue resulting from collection on the 6.9 mill continuing operating levy which was passed by the voters in May of 2010. Collection on this levy began in calendar year 2011. Payments in lieu of taxes revenue increased \$426,810 due to increased activity related to the revenue sharing arrangement with the City of Solon.

Regular instruction expenditures decreased \$2,393,315 as the District implemented salary/benefit reductions. Operations and maintenance expenses decreased from 2010 as the District implemented cost control measures and closely monitored expenses. In addition, during 2011, the District capitalized more costs that were previously expensed to this line items in previous years.

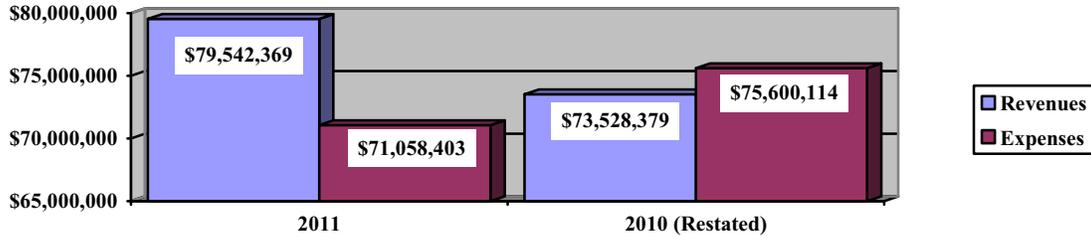
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 90.17% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 and 2010. It identifies the cost of services supported by tax revenue and restricted State grants and entitlements.

**Governmental Activities**

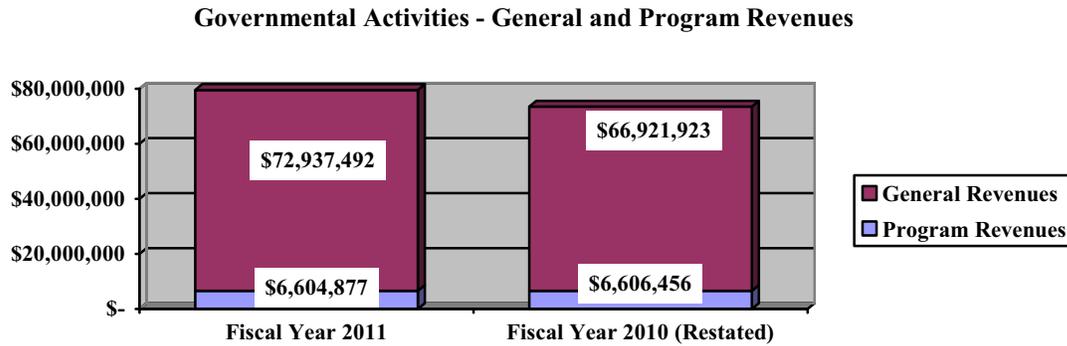
	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Restated Total Cost of Services <u>2010</u>	Restated Net Cost of Services <u>2010</u>
Instruction:				
Regular	\$ 33,389,714	\$ 31,735,687	\$ 35,783,029	\$ 34,008,700
Special	7,524,357	6,764,707	7,948,383	7,188,552
Vocational	626,621	618,161	580,933	572,536
Adult education	151,606	21,331	162,038	25,269
Other	817,045	817,045	603,661	603,661
Support services:				
Pupil	4,711,248	3,756,877	4,475,910	3,553,706
Instructional staff	1,733,269	1,549,181	1,757,308	1,706,179
Board of Education	33,207	33,207	49,986	49,986
Administration	3,215,158	3,215,113	3,988,101	3,988,101
Fiscal	1,787,602	1,787,602	1,693,113	1,693,113
Business	1,037,134	1,037,134	1,147,994	1,147,994
Operations and maintenance	6,377,142	6,231,025	8,134,230	7,968,809
Pupil transportation	3,821,166	3,555,451	3,298,628	3,161,236
Central	944,112	861,652	1,132,837	1,049,284
Operation of non-instructional services	434,552	100,631	406,599	32,787
Food service operations	1,824,354	100,924	1,757,244	15,509
Extracurricular activities	1,824,325	1,462,007	1,844,947	1,393,063
Interest and fiscal charges	805,791	805,791	835,173	835,173
<b>Total expenses</b>	<b><u>\$ 71,058,403</u></b>	<b><u>\$ 64,453,526</u></b>	<b><u>\$ 75,600,114</u></b>	<b><u>\$ 68,993,658</u></b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The dependence upon general revenues during fiscal year 2011 for governmental activities is apparent, as 94.00% of 2011 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.71% in 2011. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.



**The District's Funds**

During 2011 the District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$23,466,257, which is above last year's total of \$19,214,014. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated fund balances at June 30, 2010 as described in Note 3.B.

	Fund Balance <u>June 30, 2011</u>	Restated Fund Balance <u>June 30, 2010</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 11,271,466	\$ 7,427,964	\$ 3,843,502	51.74 %
Debt Service	2,375,118	2,070,133	304,985	14.73 %
Permanent Improvement	9,497,535	8,920,917	576,618	6.46 %
Other Governmental	322,138	795,000	(472,862)	(59.48) %
Total	<u>\$ 23,466,257</u>	<u>\$ 19,214,014</u>	<u>\$ 4,252,243</u>	22.13 %

**General Fund**

The District's general fund balance increased \$3,843,502.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The tables below assist in illustrating the financial activities of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 48,953,711	\$ 42,242,079	\$ 6,711,632	15.89 %
Tuition	1,039,979	1,158,832	(118,853)	(10.26) %
Earnings on investments	116,819	354,383	(237,564)	(67.04) %
Intergovernmental	18,073,201	18,104,539	(31,338)	(0.17) %
Other revenues	<u>869,769</u>	<u>1,079,301</u>	<u>(209,532)</u>	(19.41) %
Total	<u>\$ 69,053,479</u>	<u>\$ 62,939,134</u>	<u>\$ 6,114,345</u>	9.71 %
<b><u>Expenditures</u></b>				
Instruction	\$ 41,049,332	\$ 41,324,860	\$ (275,528)	(0.67) %
Support services	22,631,842	22,791,604	(159,762)	(0.70) %
Operation of non-instructional services	10,924	50,755	(39,831)	(78.48) %
Extracurricular activities	1,380,943	1,327,801	53,142	4.00 %
Facilities acquisition and construction	-	5,850	(5,850)	(100.00) %
Capital outlay	149,781	-	149,781	100.00 %
Debt Service	<u>46,936</u>	<u>-</u>	<u>46,936</u>	100.00 %
Total	<u>\$ 65,269,758</u>	<u>\$ 65,500,870</u>	<u>\$ (231,112)</u>	(0.35) %

The increase in tax revenue is due primarily to collections on the 6.9 mill continuing operating levy that was passed on May 4, 2010. Collections on this levy began in calendar year 2011. The decrease in tuition is due to fewer open enrollment students in the District compared to 2010. The decrease in other revenues is due to fewer contributions and donations to the District in 2011 compared to 2010. The decrease in investment income is due to the downturn in the economy coupled with declining interest rates.

Instruction expenditures decreased 0.67% and support services expenses decreased 0.70% from the prior year. These two areas are the District's largest expenditure line items. The decreases in these two areas are a direct result of the District trying to control personnel and related benefit costs. The increase in capital outlay and debt service payments are a result of the District entering into new capital leases during 2011 for copiers. The overall decrease from the prior year for expenditures was not significant.

**Debt Service Fund**

The District's debt service fund balance increased \$304,985. The tables below assist in illustrating the financial activities of the debt service fund.

	2011 <u>Amount</u>	2010 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,011,298	\$ 2,962,276	\$ 49,022	1.65 %
Intergovernmental	<u>304,840</u>	<u>308,708</u>	<u>(3,868)</u>	(1.25) %
Total	<u>\$ 3,316,138</u>	<u>\$ 3,270,984</u>	<u>\$ 45,154</u>	1.38 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Expenditures</u></b>				
Support services	\$ 39,488	\$ 21,841	\$ 17,647	80.80 %
Debt Service:				
Principal retirement	2,155,000	2,360,000	(205,000)	(8.69) %
Interest and fiscal charges	<u>816,665</u>	<u>976,117</u>	<u>(159,452)</u>	(16.34) %
Total	<u>\$ 3,011,153</u>	<u>\$ 3,357,958</u>	<u>\$ (346,805)</u>	(10.33) %

Revenues and expenditures of the debt service fund remained comparable to prior year. During 2011, the debt service fund made principal payments on bonds of \$2,155,000. Taxes and intergovernmental revenues are sufficient to cover debt service and fiscal charges incurred in the fund.

**Permanent Improvement Fund**

The District's permanent improvement fund balance increased \$576,618. The tables below assist in illustrating the financial activities of the permanent improvement fund.

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,295,738	\$ 1,259,200	\$ 36,538	2.90 %
Payment in lieu of taxes	741,815	315,005	426,810	135.49 %
Other revenues	22,342	93,028	(70,686)	(75.98) %
Intergovernmental	<u>386,764</u>	<u>447,921</u>	<u>(61,157)</u>	(13.65) %
Total	<u>\$ 2,446,659</u>	<u>\$ 2,115,154</u>	<u>\$ 331,505</u>	15.67 %
<b><u>Expenditures</u></b>				
Instruction	\$ 240,797	\$ 202,666	\$ 38,131	18.81 %
Facilities acquisition and construction	<u>1,629,244</u>	<u>1,516,869</u>	<u>112,375</u>	7.41 %
Total	<u>\$ 1,870,041</u>	<u>\$ 1,719,535</u>	<u>\$ 150,506</u>	8.75 %

The District received more revenue from the revenue sharing arrangement with the City of Solon in 2011 versus 2010 resulting in the increase to payments in lieu of taxes. This increase was partially offset by a decrease in intergovernmental revenue in 2011. Expenditures increased in 2011 primarily those related to instruction activities. The District is closely monitoring improvement projects to manage them efficiently. During fiscal year 2011, the District's primary construction project was improvements to the Roxbury elementary school.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2011, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, original budgeted revenues and other financing sources were \$66,827,041 and final budgeted revenues and other financing sources were \$67,224,384. The actual revenues and other financing sources were \$66,924,663, which was \$299,721 lower than the final budget revenues. The primary variances between the final budgeted revenues and actual revenues were in the area of property taxes and intergovernmental-state revenues. These two revenue sources represent 97.70% of the general fund revenues.

General fund original and final appropriations and other financing uses were \$69,933,729. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$66,546,389, which were \$3,387,340 less than final budgeted appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

The District restated capital assets at June 30, 2010 as described in Note 9. During fiscal year 2011, the District had \$35,544,633 invested in land, construction in progress (CIP), land improvements, buildings and improvements, furniture and equipment, and buses and other vehicles. This entire amount was reported in governmental activities.

Governmental activities capital asset balances at 2010 have been restated as described in Note 3.B. and Note 9. The following table shows fiscal year 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	Restated 2010
Land	\$ 3,209,494	\$ 3,209,494
Land improvements	4,111,948	3,935,526
Buildings and improvements	25,438,313	25,483,376
Furniture and equipment	1,473,565	1,535,160
Buses and other vehicles	1,021,445	1,303,824
Construction in progress	289,868	-
Total	\$ 35,544,633	\$ 35,467,380

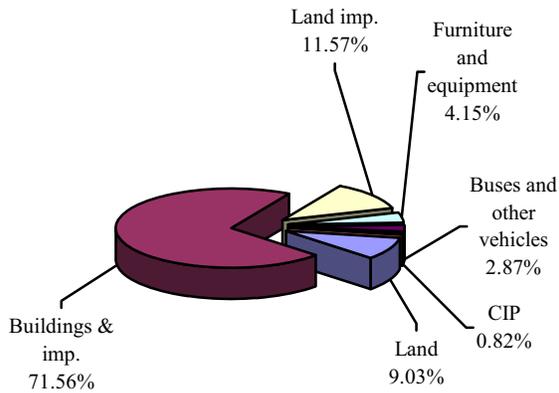
Total additions to governmental activities capital assets for 2011 were \$2,319,183. Governmental activities depreciation expense for fiscal year 2011 was \$2,241,930. Overall, governmental activities capital assets of the District increased \$77,253.

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

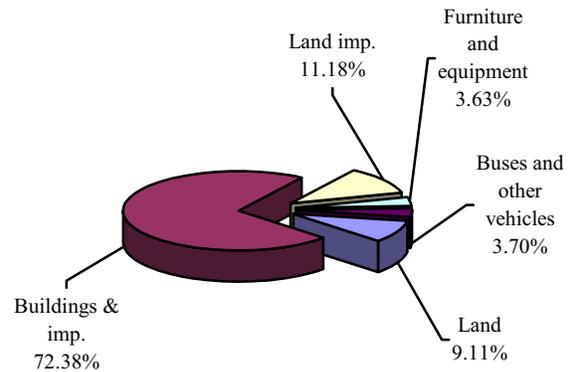
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

The following graphs show the breakdown of the governmental activities capital assets by category for 2011 and 2010.

**Capital Assets - 2011**



**Capital Assets - 2010**



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

**Debt Administration**

At June 30, 2011 the District had \$17,964,939 in general obligation bonds and capital leases outstanding. Of this total, \$2,254,164 is due within one year and \$15,710,775 is due within greater than one year.

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

**Outstanding Debt, at Year End**

	Balance <u>June 30, 2011</u>	Balance <u>June 30, 2010</u>
General obligation bonds	\$ 17,853,237	\$ 19,992,836
Capital lease obligation	<u>111,702</u>	<u>-</u>
Total	<u><u>\$ 17,964,939</u></u>	<u><u>\$ 19,992,836</u></u>

During fiscal year 2011, the District entered into a capital lease for copiers throughout the District.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)

**Current Financial Related Activities**

Solon City School District has been consistently rated as one of the top academic public school districts in the state of Ohio over the last decade. The District has held the outstanding academic distinction of being rated an excellent public school district for 12 years. This distinction has been attained while only receiving approximately 5% of its total operating revenues from the state of Ohio's foundation funding formula. Local community and businesses have placed a significant emphasis on providing an outstanding education to its students, and have always supported the District.

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

The District is not immune to the rough, economic times the state and nation are currently experiencing. Due to the struggling real estate market, the District is realizing stagnant growth in tax revenues. The District is in a delicate position of continuing to provide an excellent education, and at the same time battling current state economic issues, minimal state funding and devastating tangible personal property tax law changes.

The District closed out its fiscal year on June 30, 2011, on a positive note staying within the total appropriations approved by the Board of Education and spending what was anticipated for the year. According to current financial projections, as evidenced by the District's 5-year plan, the district implemented expenditure reductions of approximately \$1,500,000 per year effective fiscal year 2010. On May 4, 2010, the District passed a new 6.9 mill operating levy which began generating revenue in calendar year 2011. The District implemented approximately \$2,700,000 per year salary/benefit reductions effective fiscal year 2011 and an additional \$2,700,000 per year in fiscal year 2012 via salary freezes, a reduced salary schedule for new certificated hires, and changes in insurance benefits in an attempt to help address future deficits.

It will be increasingly difficult to provide an excellent education to students without a change in the current state funding structure. The District's ability to retain its current revenue stream via the state's tangible personal property tax payments will also play a significant role in the District's ability to maintain its current level of education.

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 26,609,939
Receivables:	
Property taxes . . . . .	55,998,268
Accounts . . . . .	39,499
Accrued interest . . . . .	46,961
Intergovernmental . . . . .	1,098,185
Prepayments . . . . .	32,561
Materials and supplies inventory . . . . .	79,820
Unamortized bond issuance costs . . . . .	150,924
Inventory held for resale . . . . .	42,840
Capital assets:	
Land and construction in progress . . . . .	3,499,362
Depreciable capital assets, net . . . . .	32,045,271
Capital assets, net . . . . .	35,544,633
 Total assets . . . . .	 119,643,630
 <b>Liabilities:</b>	
Accounts payable . . . . .	719,098
Accrued wages and benefits . . . . .	6,028,674
Pension obligation payable . . . . .	883,315
Intergovernmental payable . . . . .	277,006
Claims payable . . . . .	1,453,500
Accrued interest payable . . . . .	66,419
Unearned revenue . . . . .	45,179,992
Long-term liabilities:	
Due within one year . . . . .	3,883,397
Due in more than one year . . . . .	23,616,939
 Total liabilities . . . . .	 82,108,340
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	17,489,888
Restricted for:	
Capital projects . . . . .	9,659,746
Debt service . . . . .	2,471,343
Locally funded programs . . . . .	107,509
State funded programs . . . . .	162,240
Federally funded programs . . . . .	744,573
Student activities . . . . .	75,303
Unrestricted . . . . .	6,824,688
 Total net assets . . . . .	 \$ 37,535,290

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>and Contributions</u>	<u>Changes in</u>
					<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 33,389,714	\$ 1,189,708	\$ 459,321	\$ 4,998	\$ (31,735,687)
Special . . . . .	7,524,357	4,449	755,201	-	(6,764,707)
Vocational . . . . .	626,621	-	8,460	-	(618,161)
Adult/continuing. . . . .	151,606	130,275	-	-	(21,331)
Other . . . . .	817,045	-	-	-	(817,045)
Support services:					
Pupil. . . . .	4,711,248	-	954,371	-	(3,756,877)
Instructional staff . . . . .	1,733,269	-	184,088	-	(1,549,181)
Board of education . . . . .	33,207	-	-	-	(33,207)
Administration. . . . .	3,215,158	45	-	-	(3,215,113)
Fiscal. . . . .	1,787,602	-	-	-	(1,787,602)
Business. . . . .	1,037,134	-	-	-	(1,037,134)
Operations and maintenance . . . . .	6,377,142	146,117	-	-	(6,231,025)
Pupil transportation. . . . .	3,821,166	-	265,715	-	(3,555,451)
Central . . . . .	944,112	-	82,460	-	(861,652)
Operation of non-instructional services					
Other non-instructional services . . . . .	434,552	2,993	330,928	-	(100,631)
Food service operations . . . . .	1,824,354	1,478,796	244,634	-	(100,924)
Extracurricular activities. . . . .	1,824,325	357,485	4,833	-	(1,462,007)
Interest and fiscal charges . . . . .	805,791	-	-	-	(805,791)
<b>Total governmental activities . . . . .</b>	<b>\$ 71,058,403</b>	<b>\$ 3,309,868</b>	<b>\$ 3,290,011</b>	<b>\$ 4,998</b>	<b>(64,453,526)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	48,846,195
Debt service. . . . .	2,958,730
Capital outlay. . . . .	1,281,204
Payments in lieu of taxes. . . . .	741,815
Grants and entitlements not restricted	
to specific programs . . . . .	18,638,805
Investment earnings . . . . .	111,360
Miscellaneous . . . . .	359,383
<b>Total general revenues . . . . .</b>	<b>72,937,492</b>
Change in net assets . . . . .	8,483,966
<b>Net assets at beginning of year (restated). . . . .</b>	<b>29,051,324</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 37,535,290</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 11,945,118	\$ 1,931,391	\$ 9,546,000	\$ 784,753	\$ 24,207,262
Receivables:					
Property taxes . . . . .	51,846,252	2,897,990	1,254,026	-	55,998,268
Accounts . . . . .	33,317	-	4,998	1,184	39,499
Accrued interest . . . . .	46,961	-	-	-	46,961
Interfund loans . . . . .	361,024	-	-	-	361,024
Intergovernmental . . . . .	94,428	-	-	1,003,757	1,098,185
Prepayments . . . . .	32,561	-	-	-	32,561
Materials and supplies inventory . . . . .	76,128	-	-	3,692	79,820
Inventory held for resale . . . . .	12,906	-	-	29,934	42,840
Total assets . . . . .	<u>\$ 64,448,695</u>	<u>\$ 4,829,381</u>	<u>\$ 10,805,024</u>	<u>\$ 1,823,320</u>	<u>\$ 81,906,420</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 278,293	\$ -	\$ 224,787	\$ 195,783	\$ 698,863
Accrued wages and benefits . . . . .	6,010,479	-	-	18,195	6,028,674
Compensated absences payable . . . . .	1,067,567	-	-	-	1,067,567
Interfund loans payable . . . . .	-	-	-	361,024	361,024
Intergovernmental payable . . . . .	265,967	-	-	11,039	277,006
Pension obligation payable . . . . .	880,768	-	-	2,547	883,315
Deferred revenue . . . . .	2,805,687	162,644	62,797	912,594	3,943,722
Unearned revenue . . . . .	41,868,468	2,291,619	1,019,905	-	45,179,992
Total liabilities . . . . .	<u>\$ 53,177,229</u>	<u>\$ 2,454,263</u>	<u>\$ 1,307,489</u>	<u>\$ 1,501,182</u>	<u>\$ 58,440,163</u>
<b>Fund Balances:</b>					
Nonspendable:					
Materials and supplies inventory . . . . .	76,128	-	-	3,692	79,820
Inventory held for resale . . . . .	12,906	-	-	29,934	42,840
Prepayments . . . . .	32,561	-	-	-	32,561
Restricted:					
Debt service . . . . .	-	2,375,118	-	-	2,375,118
Capital improvements . . . . .	-	-	9,497,535	99,414	9,596,949
Food service operations . . . . .	-	-	-	12,087	12,087
Non-public schools . . . . .	-	-	-	2,998	2,998
Special education . . . . .	-	-	-	12,667	12,667
Targeted academic assistance . . . . .	-	-	-	9,853	9,853
Other purposes . . . . .	-	-	-	281,760	281,760
Extracurricular . . . . .	-	-	-	75,303	75,303
Assigned:					
Student instruction . . . . .	425,904	-	-	-	425,904
Student and staff support . . . . .	967,106	-	-	-	967,106
Extracurricular activities . . . . .	24,903	-	-	-	24,903
Facilities acquisition and construction . . . . .	13,310	-	-	-	13,310
School supplies . . . . .	40,939	-	-	-	40,939
Adult education . . . . .	9,672	-	-	-	9,672
Unassigned . . . . .	9,668,037	-	-	(205,570)	9,462,467
Total fund balances . . . . .	<u>11,271,466</u>	<u>2,375,118</u>	<u>9,497,535</u>	<u>322,138</u>	<u>23,466,257</u>
Total liabilities and fund balances . . . . .	<u>\$ 64,448,695</u>	<u>\$ 4,829,381</u>	<u>\$ 10,805,024</u>	<u>\$ 1,823,320</u>	<u>\$ 81,906,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

<b>Total governmental fund balances</b>		\$	23,466,257
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			35,544,633
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Delinquent taxes receivable	\$	2,902,658	
Accrued interest receivable		34,042	
Intergovernmental receivable		1,007,022	
Total		1,007,022	3,943,722
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.			928,942
Unamortized bond issuance costs are not recognized in the funds.			150,924
Unamortized premiums on bond issuances are not recognized in the funds.			(537,828)
Unamortized deferred charges on refundings are not recognized in the funds.			313,083
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.			(66,419)
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		(17,853,237)	
Capital lease obligations		(111,702)	
Compensated absences		(8,243,085)	
Total		(18,208,024)	(26,208,024)
<b>Net assets of governmental activities</b>		\$	37,535,290

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Property taxes . . . . .	\$ 48,953,711	\$ 3,011,298	\$ 1,295,738	\$ -	\$ 53,260,747
Payment in lieu of taxes . . . . .	-	-	741,815	-	741,815
Tuition . . . . .	1,039,979	-	-	-	1,039,979
Earnings on investments . . . . .	116,819	-	-	441	117,260
Charges for services . . . . .	-	-	-	1,478,796	1,478,796
Extracurricular . . . . .	-	-	-	245,605	245,605
Classroom materials and fees . . . . .	190,448	-	-	-	190,448
Rental income . . . . .	154,414	-	-	-	154,414
Contributions and donations . . . . .	82,293	-	4,998	109,406	196,697
Other local revenues . . . . .	442,614	-	17,344	5,623	465,581
Intergovernmental - intermediate . . . . .	-	-	-	2,640	2,640
Intergovernmental - state . . . . .	18,073,201	304,840	386,764	523,687	19,288,492
Intergovernmental - federal . . . . .	-	-	-	1,751,458	1,751,458
Total revenues . . . . .	<u>69,053,479</u>	<u>3,316,138</u>	<u>2,446,659</u>	<u>4,117,656</u>	<u>78,933,932</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	32,353,665	-	240,797	392,969	32,987,431
Special . . . . .	7,081,998	-	-	614,441	7,696,439
Vocational . . . . .	614,864	-	-	-	614,864
Adult/continuing . . . . .	161,669	-	-	-	161,669
Other . . . . .	837,136	-	-	-	837,136
Support services:					
Pupil . . . . .	3,862,358	-	-	924,671	4,787,029
Instructional staff . . . . .	1,663,984	-	-	129,910	1,793,894
Board of education . . . . .	33,207	-	-	-	33,207
Administration . . . . .	3,317,206	-	-	-	3,317,206
Fiscal . . . . .	1,745,575	39,488	-	-	1,785,063
Business . . . . .	1,036,528	-	-	-	1,036,528
Operations and maintenance . . . . .	6,605,237	-	-	-	6,605,237
Pupil transportation . . . . .	3,429,188	-	-	153,300	3,582,488
Central . . . . .	938,559	-	-	5,000	943,559
Operation of non-instructional services:					
Operation of non-instructional . . . . .	10,924	-	-	373,119	384,043
Food service operations . . . . .	-	-	-	1,798,536	1,798,536
Extracurricular activities . . . . .	1,380,943	-	-	288,572	1,669,515
Facilities acquisition and construction . . . . .	-	-	1,629,244	-	1,629,244
Capital outlay . . . . .	149,781	-	-	-	149,781
Debt service:					
Principal retirement . . . . .	38,079	2,155,000	-	-	2,193,079
Interest and fiscal charges . . . . .	8,857	816,665	-	-	825,522
Total expenditures . . . . .	<u>65,269,758</u>	<u>3,011,153</u>	<u>1,870,041</u>	<u>4,680,518</u>	<u>74,831,470</u>
Excess of revenues over (under) expenditures . . . . .	<u>3,783,721</u>	<u>304,985</u>	<u>576,618</u>	<u>(562,862)</u>	<u>4,102,462</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	90,000	90,000
Transfers (out) . . . . .	(90,000)	-	-	-	(90,000)
Capital lease transaction . . . . .	149,781	-	-	-	149,781
Total other financing sources (uses) . . . . .	<u>59,781</u>	<u>-</u>	<u>-</u>	<u>90,000</u>	<u>149,781</u>
Net change in fund balances . . . . .	3,843,502	304,985	576,618	(472,862)	4,252,243
<b>Fund balances at beginning of year (restated).</b>	<u>7,427,964</u>	<u>2,070,133</u>	<u>8,920,917</u>	<u>795,000</u>	<u>19,214,014</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 11,271,466</u>	<u>\$ 2,375,118</u>	<u>\$ 9,497,535</u>	<u>\$ 322,138</u>	<u>\$ 23,466,257</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**Net change in fund balances - total governmental funds** \$ 4,252,243

*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 expense exceeded capital outlays in the current period.

Capital asset additions	\$	2,319,183	
Current year depreciation		(2,241,930)	
Total			77,253

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

Delinquent property tax revenue		(174,618)	
Interest revenue		(5,459)	
Other local revenue		94,428	
Intergovernmental revenue		694,086	
Total			608,437

The proceeds of a capital lease transaction is recorded as other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (149,781)

Repayment of bond and capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets.

Bonds		2,155,000	
Capital leases		38,079	
Total			2,193,079

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in more interest being reported on the statement of activities:

Decrease in accrued interest payable		6,100	
Accreted interest on "capital appreciation" bonds		(15,401)	
Amortization of bond issuance costs		(13,709)	
Amortization on bond premiums		75,993	
Amortization of deferred charge on refunding		(33,252)	
Total			19,731

Some expenses reported in the statement of activities, such as the long-term portion of compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 844,972

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 638,032

**Change in net assets of governmental activities** \$ 8,483,966

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 47,240,268	\$ 46,520,950	\$ 47,309,277	\$ 788,327
Tuition . . . . .	927,466	980,342	928,821	(51,521)
Earnings on investments . . . . .	83,741	88,515	83,863	(4,652)
Classroom materials and fees . . . . .	62,645	66,217	62,737	(3,480)
Rental income . . . . .	127,748	135,031	127,935	(7,096)
Other local revenues . . . . .	243,473	257,354	243,829	(13,525)
Intergovernmental - state . . . . .	18,046,839	19,075,705	18,073,201	(1,002,504)
Total revenues . . . . .	<u>66,732,180</u>	<u>67,124,114</u>	<u>66,829,663</u>	<u>(294,451)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	32,875,119	32,875,119	32,140,146	734,973
Special . . . . .	7,416,681	7,416,681	7,127,215	289,466
Vocational . . . . .	1,046,026	1,046,026	750,362	295,664
Other . . . . .	818,344	818,344	801,496	16,848
Support services:				
Pupil . . . . .	3,804,339	3,804,339	3,725,202	79,137
Instructional staff . . . . .	1,638,248	1,638,248	1,596,186	42,062
Board of education . . . . .	36,864	36,864	36,033	831
Administration . . . . .	3,707,078	3,707,078	3,610,280	96,798
Fiscal . . . . .	1,834,990	1,834,990	1,758,218	76,772
Business . . . . .	1,389,925	1,389,925	1,220,029	169,896
Operations and maintenance . . . . .	8,620,962	8,620,962	7,300,865	1,320,097
Pupil transportation . . . . .	3,696,192	3,696,192	3,532,551	163,641
Central . . . . .	1,248,494	1,248,494	1,206,678	41,816
Extracurricular activities . . . . .	1,290,031	1,290,031	1,241,201	48,830
Facilities acquisition and construction . . . . .	13,590	13,590	13,310	280
Total expenditures . . . . .	<u>69,436,883</u>	<u>69,436,883</u>	<u>66,059,772</u>	<u>3,377,111</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(2,704,703)</u>	<u>(2,312,769)</u>	<u>769,891</u>	<u>3,082,660</u>
<b>Other financing sources (uses):</b>				
Transfers (out) . . . . .	(128,233)	(128,233)	(125,593)	2,640
Advances in . . . . .	94,861	100,270	95,000	(5,270)
Advances (out) . . . . .	(368,613)	(368,613)	(361,024)	7,589
Total other financing sources (uses) . . . . .	<u>(401,985)</u>	<u>(396,576)</u>	<u>(391,617)</u>	<u>4,959</u>
Net change in fund balance . . . . .	(3,106,688)	(2,709,345)	378,274	3,087,619
<b>Fund balance at beginning of year (restated).</b>	7,306,327	7,306,327	7,306,327	-
<b>Prior year encumbrances appropriated . . . . .</b>	1,988,469	1,988,469	1,988,469	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 6,188,108</u>	<u>\$ 6,585,451</u>	<u>\$ 9,673,070</u>	<u>\$ 3,087,619</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	<u><b>Governmental Activities - Internal Service Funds</b></u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and investments . . .	\$ 2,402,677
Total assets. . . . .	<u>2,402,677</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	20,235
Claims payable . . . . .	<u>1,453,500</u>
Total liabilities . . . . .	<u>1,473,735</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>928,942</u>
Total net assets . . . . .	<u>\$ 928,942</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY, OHIO**  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Sales/charges for services. . . . .	\$ 8,024,767
Total operating revenues . . . . .	8,024,767
<b>Operating expenses:</b>	
Purchased services. . . . .	26,154
Claims . . . . .	7,360,581
Total operating expenses. . . . .	7,386,735
Operating income / change in net assets . . .	638,032
<b>Net assets at beginning of year . . . . .</b>	<b>290,910</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 928,942</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services . . . . .	\$ 8,024,767
Cash payments for purchased services . . . . .	(25,953)
Cash payments for claims . . . . .	<u>(7,380,876)</u>
Net cash provided by operating activities . . . . .	<u>617,938</u>
Net increase in cash and cash equivalents . . . . .	617,938
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>1,784,739</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 2,402,677</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 638,032
Changes in assets and liabilities:	
Increase in accounts payable . . . . .	3,706
(Decrease) in claims payable . . . . .	<u>(23,800)</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 617,938</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOLON CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY, OHIO**  
STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2011

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 230,405
Total assets. . . . .	\$ 230,405
 <b>Liabilities:</b>	
Accounts payable. . . . .	\$ 2,900
Due to students. . . . .	227,505
Total liabilities . . . . .	\$ 230,405

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Solon City School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under a locally elected five-member Board of Education and provides educational services as mandated by State and/or federal agencies. The District operates four elementary schools (K-4), one lower middle school (5-6), one upper middle school (7-8), and one high school (9-12). The Board oversees the operations of the District’s seven instructional facilities.

The District ranks as the 66<sup>th</sup> largest by enrollment among the 918 public school districts and community schools in the State of Ohio. The District employs 320 non-certified, 390 certified and 17 administrative employees to provide services to approximately 5,152 students and community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and internal service fund provided it does not conflict with or contradict GASB pronouncements. The most significant of the District’s accounting policies are described below.

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

The Ohio Schools' Council Association

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

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

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

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

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

*PUBLIC ENTITY RISK POOL*

The Ohio Schools' Council Workers' Compensation Group Rating Program (the "Plan") is an insurance purchasing pool (see Note 11.C.). The plan is intended to reduce premiums for the participants. The Worker's Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

The following are the District's major governmental funds:

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Debt service fund* - The debt service fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

*Permanent improvement fund* - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets as authorized by Chapter 5705, Ohio Revised Code.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets that are not accounted for the permanent improvement fund, and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*PROPRIETARY FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation**

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

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

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*Unearned Revenue and Deferred Revenue* - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue in the governmental funds.

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

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

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

**E. Budgets**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*TAX BUDGET*

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

*ESTIMATED RESOURCES*

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District. The amounts reported in the budgetary statements reflect the amounts in the original and final amended certificate of estimated resources issued during fiscal year 2011.

*APPROPRIATIONS*

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

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. Supplemental appropriations were legally enacted by the Board during fiscal year 2011.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*ENCUMBRANCES*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the governmental fund financial statements, encumbrances outstanding at fiscal year end are reported as a component of restricted, committed or assigned fund balance.

*LAPSING OF APPROPRIATIONS*

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

**F. Cash and Investments**

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

During fiscal year 2011, investments were limited to Federal Home Loan Bank (FHLB) securities, Federal National Mortgage Association (FNMA) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, negotiable certificates of deposit (negotiable CD's), U.S. Treasury notes, municipal securities, U.S. government money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$116,819 which includes \$64,661 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the government-wide statements and the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, school supplies held for resale, donated food and purchased food.

**H. Capital Assets**

All capital assets of the District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivables/payables”. These amounts are eliminated in the governmental activities columns of the statement of net assets.

**J. Compensated Absences**

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**L. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

**N. Prepayments**

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

On the fund financial statements, reported prepayments are equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**O. Non-Public Schools**

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

**P. Estimates**

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

**Q. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**R. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenue.

**S. Interfund Activity**

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

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

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

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

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

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.

**U. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2011, the District had no extraordinary or special items.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

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

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. In addition, a fund reclassification has been made to report the food service fund and the adult education fund as governmental funds rather than an enterprise fund. The fees received by these funds are not designed to cover all costs associated with the operations of the programs. The food service fund is largely supported by intergovernmental grants and entitlements and both funds rely on transfers and advances from the general fund to support operations.

These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 6,425,831	\$ 2,070,133	\$ 8,920,917	\$ 1,761,615	\$ 19,178,496
Fund reclassifications:					
Enterprise funds to governmental funds:					
Food service fund	-	-	-	25,196	25,196
Adult education fund	(711)	-	-	-	(711)
Uniform school supplies fund	11,033	-	-	-	11,033
GASB Statement No. 54 implementation:					
Special trust fund	705,847	-	-	(705,847)	-
Public school support fund	285,964	-	-	(285,964)	-
Total fund reclassifications	<u>1,002,133</u>	<u>-</u>	<u>-</u>	<u>(966,615)</u>	<u>35,518</u>
Restated fund balance at July 1, 2010	<u>\$ 7,427,964</u>	<u>\$ 2,070,133</u>	<u>\$ 8,920,917</u>	<u>\$ 795,000</u>	<u>\$ 19,214,014</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

These fund reclassifications had the following effect on the net assets of the District's enterprise funds, governmental activities, and business-type activities as previously reported:

	<u>Enterprise Funds</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
Net assets as previously reported	\$ 189,156	\$ 189,156	\$ 28,862,168
Fund reclassifications:			
Food service fund			
Portion applicable to fund balance	(25,196)	(25,196)	25,196
Capital assets, net	(255,492)	(255,492)	255,492
Long-term compensated absences	91,791	91,791	(91,791)
Adult education fund			
Portion applicable to fund balance	711	711	(711)
Long-term compensated absences	10,063	10,063	(10,063)
Uniform school supplies fund			
Portion applicable to fund balance	<u>(11,033)</u>	<u>(11,033)</u>	<u>11,033</u>
Fund reclassification	<u>(189,156)</u>	<u>(189,156)</u>	<u>189,156</u>
Restated net assets at July 1, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,051,324</u>

**C. Deficit Fund Balances**

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
IDEA, Part B	\$ 204,399
Stimulus Title II D	1,024
Title I	127
Drug Free School Grant	<u>20</u>
Total	<u>\$ 205,570</u>

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities and the reporting of advances in from the general fund as a fund liability rather than an "other financing source".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$8,083,206. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$5,702,480 of the District's bank balance of \$8,888,589 was exposed to custodial risk as discussed below, while \$3,186,109 was covered by Federal Deposit Insurance Corporation.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2011, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater Than 24 months
FHLB	\$ 1,594,102	\$ -	\$ 1,594,102	\$ -	\$ -	\$ -
FNMA	6,644,911	-	3,015,840	3,128,421	-	500,650
FHLMC	135,123	-	-	-	135,123	-
FFCB	1,168,515	-	1,013,250	-	155,265	-
U.S. Treasury Notes	2,002,660	-	-	2,002,660	-	-
Municipal securities	1,261,010	635,165	321,977	194,955	-	108,913
Negotiable CD's	2,545,963	732,886	189,036	665,344	958,697	-
U.S. Government Money						
Market Mutual Funds	3,401,189	3,401,189	-	-	-	-
STAR Ohio	2,824	2,824	-	-	-	-
	<u>\$ 18,756,297</u>	<u>\$ 4,772,064</u>	<u>\$ 6,134,205</u>	<u>\$ 5,991,380</u>	<u>\$ 1,249,085</u>	<u>\$ 609,563</u>

The weighted average maturity of investments is .88 years.

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. The federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The municipal securities were rated between Aaa-Aa2 by Moody's and AA by Standard & Poor's. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,594,102	8.50%
FNMA	6,644,911	35.43%
FHLMC	135,123	0.72%
FFCB	1,168,515	6.23%
U.S. Treasury Notes	2,002,660	10.68%
Municipal securities	1,261,010	6.72%
Negotiable CD's	2,545,963	13.57%
U.S. Government Money		
Market Mutual Funds	3,401,189	18.13%
STAR Ohio	<u>2,824</u>	<u>0.02%</u>
	<u>\$ 18,756,297</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 8,083,206
Investments	18,756,297
Cash on hand	<u>841</u>
Total	<u>\$ 26,840,344</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 26,609,939
Agency fund	<u>230,405</u>
Total	<u>\$ 26,840,344</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund loans receivable/payable consisted of the following at June 30, 2011, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 361,024

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

Interfund loans receivable/payable between governmental funds are eliminated for reporting on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 90,000

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

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 6 - PROPERTY TAXES - (Continued)**

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$7,303,992 in the general fund, \$443,727 in the debt service fund and \$171,324 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$5,590,739 in the general fund, \$432,069 in the debt service fund and \$155,253 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

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

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 1,150,565,900	98.30	\$ 1,150,243,610	98.27
Public utility personal	<u>19,808,660</u>	1.70	<u>20,211,360</u>	1.73
Total	<u>\$ 1,170,374,560</u>	<u>100.00</u>	<u>\$ 1,170,454,970</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 82.20		\$ 82.20	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 – RECEIVABLES - (Continued)**

Principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Property taxes	\$ 55,998,268
Accounts	39,499
Intergovernmental	1,098,185
Accrued interest	<u>46,961</u>
Total governmental activities	<u>\$ 57,182,913</u>

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

**NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2011, the District entered into capital lease agreements for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balances - general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$149,781, which represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$24,964 leaving a current book value of \$124,817.

A corresponding liability was recorded in the statement of net assets. Principal payments in the 2011 fiscal year totaled \$38,079. This amount is reflected as debt service principal retirement in the general fund and as a reduction to the long-term liabilities reported on the statement of net assets. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2012	\$ 56,323
2013	56,323
2014	<u>9,387</u>
	122,033
Less: amount representing interest	<u>(10,331)</u>
Present value of minimum lease payments	<u>\$ 111,702</u>

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - CAPITAL ASSETS**

The June 30, 2010 balance of the governmental activities capital assets has been restated to include amounts of capital assets and accumulated depreciation previously reported as business-type activities (see Note 3.B. for detail). Capital asset activity for the fiscal year-ended June 30, 2011, was as follows:

	Restated Balance			Balance
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,209,494	\$ -	\$ -	\$ 3,209,494
Construction n progress	-	289,868	-	289,868
Total capital assets, not being depreciated	<u>3,209,494</u>	<u>289,868</u>	<u>-</u>	<u>3,499,362</u>
Capital assets, being depreciated:				
Land improvements	6,486,595	514,402	-	7,000,997
Buildings and improvements	54,859,725	1,160,762	-	56,020,487
Furniture and equipment	5,561,171	338,257	-	5,899,428
Buses and other vehicles	3,588,140	15,894	-	3,604,034
Total capital assets, being depreciated	<u>70,495,631</u>	<u>2,029,315</u>	<u>-</u>	<u>72,524,946</u>
Less: accumulated depreciation				
Land improvements	(2,551,069)	(337,980)	-	(2,889,049)
Buildings and improvements	(29,376,349)	(1,205,825)	-	(30,582,174)
Furniture and equipment	(4,026,011)	(399,852)	-	(4,425,863)
Buses and other vehicles	(2,284,316)	(298,273)	-	(2,582,589)
Total accumulated depreciation	<u>(38,237,745)</u>	<u>(2,241,930)</u>	<u>-</u>	<u>(40,479,675)</u>
Governmental activities capital assets, net	<u>\$ 35,467,380</u>	<u>\$ 77,253</u>	<u>\$ -</u>	<u>\$ 35,544,633</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,345,330
Special	22,181
Vocational	11,757
Support Services:	
Pupil	54,666
Administration	15,036
Operations and maintenance of plant	294,661
Pupil transportation	271,513
Operation of non-instructional services:	
Other non-instructional services	50,509
Food service operations	22,238
Extracurricular activities	154,039
Total depreciation expense	<u>\$ 2,241,930</u>

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. The June 30, 2010 balance of the governmental activities long-term obligations has been restated to include amounts applicable to items previously reported as long-term obligations of the business-type activities (see Note 3.B. for detail). The changes in the District's long-term obligations during the year consist of the following:

	Restated Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2011</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
General obligation bonds:					
Series 1997 \$6,000,000 School Improvement Bonds - 3.6 - 5.5%	\$ 3,340,000	\$ -	\$ (365,000)	\$ 2,975,000	\$ 395,000
Series 2001 \$7,000,000 School Improvement Bonds - 4.0 - 5.125%	675,000	-	(330,000)	345,000	345,000
Series 2003 \$6,000,000 School Improvement Bonds - 2.0 - 5.0%	4,615,000	-	(255,000)	4,360,000	260,000
Series 2004 \$5,070,000 Refunding Bonds - 2.0 - 5.0%	3,960,000	-	(985,000)	2,975,000	975,000
Series 2005 \$4,000,000 School Improvement Bonds- 3.2 - 4.0%	3,430,000	-	(150,000)	3,280,000	160,000
Series 2009 \$4,020,000 Refunding Bonds:					
Current interest - 2.0 - 4.125%	3,935,000	-	(70,000)	3,865,000	70,000
Capital appreciation bonds	30,000	-	-	30,000	-
Accreted interest	7,836	15,401	-	23,237	-
	<u>19,992,836</u>	<u>15,401</u>	<u>(2,155,000)</u>	<u>17,853,237</u>	<u>2,205,000</u>
Other long-term obligations:					
Capital lease obligations	-	149,781	(38,079)	111,702	49,164
Compensated absences payable	<u>9,877,586</u>	<u>1,036,015</u>	<u>(1,602,949)</u>	<u>9,310,652</u>	<u>1,629,233</u>
Total governmental activities long-term obligations	29,870,422	<u>\$ 1,051,416</u>	<u>\$ (3,757,949)</u>	27,275,591	<u>\$ 3,883,397</u>
Add: unamortized premium	613,821			537,828	
Less: deferred charges on refunding	<u>(346,335)</u>			<u>(313,083)</u>	
Total on statement of net assets	<u>\$ 30,137,908</u>			<u>\$ 27,500,336</u>	

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

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

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

Series 1997 School Improvement General Obligation Bonds

On February 15, 1997, the District issued \$6,000,000 in general obligation bonds with interest rates ranging from 3.6 to 5.5 percent. These bonds were issued to finance various construction and renovation projects undertaken by the District. The final stated maturity date on the bond issue is December 1, 2016.

Series 2001 School Improvement General Obligation Bonds

On May 1, 2001, the District issued \$7,000,000 in general obligation bonds with interest rates ranging from 4.0 to 5.125 percent. These bonds were issued to finance various construction and renovation projects undertaken by the District. The callable portion of these bonds were refunded by the Series 2009 refunding bonds described below. The remaining non-refunded bonds are scheduled to mature in fiscal year 2012.

Series 2003 School Improvement General Obligation Bonds

On December 1, 2003 the District issued \$6,000,000 of general obligation bonds with interest rates ranging from 2.0 to 5.0 percent payable semiannually. These bonds were issued to finance various construction and renovation projects undertaken by the District. The final stated maturity date on the bond issue is December 1, 2023.

Series 2004 Refunding General Obligation Bonds

On December 22, 2004 the District issued School Improvement Refunding Bonds in the amount of \$5,070,000 (par value) with interest rates ranging from 2.0 to 5.0 percent to advance refund Series 1993 refunding bonds in the amount of \$5,085,000 (par value) with an interest rate of 5.3 percent. The refunding bonds mature on December 1, 2013. These bonds were issued at a premium of \$260,255 with issuance costs of \$103,878. The advance refunding met the requirement of an in-substance debt defeasance and the advance refunded bonds were removed from the District's government-wide financial statements (See Note 10.B).

Series 2005 School Improvement General Obligation Bonds

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

Series 2009 Refunding General Obligation Bonds

On September 3, 2009, the District issued general obligation bonds (Series 2009 Refunding Bonds) to advance refund the callable portion of the Series 2001 school improvement bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets (see Note 10.B).

The refunding issue is comprised of both current interest bonds, par value \$3,990,000, and capital appreciation bonds par value \$30,000. The interest rates on the current interest bonds range from 2.0 to 4.125 percent. The capital appreciation bonds mature on December 1, 2017 (effective interest rate 36.92 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$490,000. Total accreted interest of \$15,401 has been included in the statement of net assets at June 30, 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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

The reacquisition price exceeded the net carrying amount of the old debt by \$374,045. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

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

Fiscal Year Ending June 30	Current Interest General Obligation Bonds			Capital Appreciation General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 2,205,000	\$ 733,335	\$ 2,938,335	\$ -	\$ -	\$ -
2013	2,315,000	640,021	2,955,021	-	-	-
2014	2,380,000	539,025	2,919,025	-	-	-
2015	1,430,000	458,948	1,888,948	-	-	-
2016	1,500,000	398,988	1,898,988	-	-	-
2017 - 2021	5,395,000	1,196,895	6,591,895	30,000	460,000	490,000
2022 - 2026	2,575,000	249,950	2,824,950	-	-	-
Total	<u>\$ 17,800,000</u>	<u>\$ 4,217,162</u>	<u>\$ 22,017,162</u>	<u>\$ 30,000</u>	<u>\$ 460,000</u>	<u>\$ 490,000</u>

**B. Defeased Debt**

In fiscal year 2005, the District issued Series 2004 refunding bonds to advance refund the callable portion of the Series 1993 refunding bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2011, the balance of the Series 1993 defeased debt outstanding but removed from the financial statements amounted to \$3,075,000.

In fiscal year 2010, the District issued Series 2009 refunding bonds to advance refund the callable portion of the Series 2001 school improvement bonds. The advance refunding created a separate irrevocable trust for the retirement of the refunded bonds. The new bonds were issued and the proceeds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded debt is considered defeased and has been removed from the District's financial statements. As of June 30, 2011, the balance of the Series 2001 defeased debt outstanding but removed from the financial statements amounted to \$4,020,000.

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$89,886,065, including available funds of \$2,375,118, and an unvoted debt margin of \$1,170,455.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During 2011, the District contracted with the Ohio Casualty Insurance Company for the following insurance coverage:

Type of Coverage	Coverage
Property Coverage:	
Blanket buildings and contents	\$ 142,103,058
Inland Marine:	
School band uniforms and equipment	100,000
Athletic and other equipment	100,000
Musical instruments	100,000
Audio visual equipment	100,000
Fine arts	100,000
Signs	10,000
Shop dwellings	100,000
Commercial Crime Coverage:	
Theft, disappearance and destruction	15,000
Robbery and safe burglary	25,000
Computer fraud	25,000
Forgery or alterations	25,000
Employee dishonesty	100,000
Flood Coverage	1,000,000
Commercial Computer Coverage:	
Equipment	2,723,077
Extra expense	5,000

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - RISK MANAGEMENT - (Continued)**

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2011.

**B. Employee Benefits**

The District has elected to contract with Medical Mutual of Ohio as a program administrator to provide medical benefits for employees through a self-insured program. These benefits are accounted for in the internal service fund. An excess coverage insurance (stop loss) policy covers claims in excess of \$250,000 per employee.

The internal service fund pays for the costs of providing claims servicing and claims payment. The premium charged for family and single coverage is \$1,066 per month for classified employees and certified employees. The benefits that are included in this lump sum premium are medical, dental, vision and life insurance.

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - RISK MANAGEMENT - (Continued)**

The claims liability of \$1,453,500 reported in the internal service fund at June 30, 2011, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The balance of claims payable at June 30, 2011 represents an estimate of the liability for unpaid claims costs provided by Medical Mutual of Ohio.

Changes in the claims liability for 2009 through 2011 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2011	\$ 1,477,300	\$ 7,357,076	\$ (7,380,876)	\$ 1,453,500
2010	686,000	8,436,690	(7,645,390)	1,477,300
2009	1,524,300	6,517,174	(7,355,474)	686,000

**C. Workers' Compensation Program**

For fiscal year 2011, the District participated in the Ohio Schools' Council Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The Workers' Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its Workers' Compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This equity pooling arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. Each year, the District pays an enrollment fee to the Plan to cover costs of administering the program

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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**NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)**

**B. Retirement Incentive**

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

At June 30, 2011, the District's retirement payout liability was \$419,152 and has been recorded as a component of "compensated absences payable" on the financial statements.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,136,436, \$1,254,346 and \$874,510, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**B. State Teachers Retirement System of Ohio**

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

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 13 - PENSION PLANS - (Continued)**

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

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$4,388,860, \$4,391,250 and \$4,323,710, respectively; 91.67 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$160,104 made by the District and \$114,360 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**SOLON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$284,827, \$189,268 and \$582,667, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$73,132, \$74,593 and \$72,154, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$337,605, \$337,788 and \$332,593, respectively; 91.67 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While 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 and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 378,274
Net adjustment for revenue accruals	1,673,007
Net adjustment for expenditure accruals	52,204
Net adjustment for other sources/uses	415,805
Funds budgeted elsewhere	(38,097)
Adjustment for encumbrances	<u>1,362,309</u>
GAAP basis	<u>\$ 3,843,502</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, the uniform school supplies fund, the adult education fund, and the public school support fund.

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 17 - SET-ASIDES**

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	809,328	809,328
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(481,209)	-
Excess qualified expenditures from prior years	(1,872,725)	-
Current year offsets	-	(809,328)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (1,544,606)</u>	<u>\$ -</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had current year qualifying disbursements and excess qualified expenditures from prior years that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year.

The District had offsets during the fiscal year that reduced the set-aside amount to zero for the capital improvements set-aside.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 18 - PAYMENT IN LIEU OF TAXES**

**A. Foreign Trade Zone and Community Reinvestment Area Tax Abatements**

In March 2004, Swagelok Company, located within the District's limits, applied for and received an activated permanent General Purpose Foreign Trade Zone and a Community Reinvestment Area Tax Abatement in connection with a proposed expansion project. In connection with the above, the District entered into a Revenue Sharing Agreement with the Village of Glenwillow to compensate the District for a loss of anticipated revenues resulting from the Community Reinvestment Area and Foreign Trade Zone tax exemptions. During fiscal year 2011, the District received \$721,815 in revenue as a result of the Revenue Sharing Agreement with the Village. This revenue is reported in the permanent improvement fund.

**B. Tax Increment Financing Payments**

The District has entered into an agreement with the City of Solon to receive payments related to the Kruse Drive tax increment financing (TIF) project. The City collects the TIF revenue and distributes an agreed upon amount to the District. During fiscal year 2011, the District received \$20,000 in revenue from the City of Solon as a result of this agreement. This revenue is reported in the permanent improvement fund.

**NOTE 19 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 1,236,602
Permanent improvement	711,178
Other governmental	<u>151,734</u>
 Total	 \$ <u>2,099,514</u>

**OLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education:</i>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555	\$0	\$45,415	\$0	\$45,415
Cash Assistance:					
National School Lunch Program	10.555	173,581	0	173,581	0
Total Child Nutrition Cluster		173,581	45,415	173,581	45,415
<b>Total U.S. Department of Agriculture</b>		173,581	45,415	173,581	45,415
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2010	84.010	114,569	0	139,569	0
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) - 2011	84.010	137,578	0	136,578	0
ARRA - Title I Grants to Local Educational Agencies, Recovery Act - 2010	84.389	68,787	0	78,787	0
Total Title I, Part A Cluster		320,934	0	354,934	0
Special Education Cluster (IDEA):					
Special Education - Grants to States (IDEA, Part B) - 2010	84.027	422,810	0	436,169	0
Special Education - Grants to States (IDEA, Part B) - 2011	84.027	485,671	0	501,544	0
ARRA - Special Education - Grants to States (IDEA, Part B) - 2010	84.391	242,163	0	280,365	0
ARRA - Special Education - Grants to States (IDEA, Part B) - 2011	84.391	37,278	0	56,117	0
Total Special Education - Grants to States (IDEA, Part B)		1,187,922	0	1,274,195	0
Special Education - Preschool Grants (IDEA Preschool) - 2010	84.173	10,625	0	12,625	0
Special Education - Preschool Grants (IDEA Preschool) - 2011	84.173	13,316	0	12,816	0
ARRA - Special Education - Preschool Grants (IDEA Preschool) - 2010	84.392	14,082	0	17,082	0
Total Special Education - Preschool Grants (IDEA Preschool)		38,023	0	42,523	0
Total Special Education Cluster (IDEA)		1,225,945	0	1,316,718	0
Education Jobs	84.410	57,688	0	52,688	0
Safe and Drug-Free Schools and Communities - State Grants - 2010	84.186	4,859	0	5,859	0
ARRA- State Fiscal Stabilization Fund (SFSF) - 2010	84.394	0	0	1,266	0
ARRA- State Fiscal Stabilization Fund (SFSF) - 2011	84.394	222,446	0	161,539	0
Total ARRA State Fiscal Stabilization Fund (SFSF)		222,446	0	162,805	0
Education Technology State Grants - 2010	84.318	2,047	0	1,298	0
Education Technology State Grants - 2011	84.318	95	0	1,119	0
Total Education Technology State Grants		2,142	0	2,417	0
English Language Acquisition Grants - 2010	84.365	18,794	0	21,794	0
English Language Acquisition Grants - 2011	84.365	21,503	0	20,952	0
Total English Language Acquisition Grants		40,297	0	42,746	0
Improving Teacher Quality State Grants - 2010	84.367	57,737	0	40,546	0
Improving Teacher Quality State Grants - 2011	84.367	39,936	0	69,804	0
Total Improving Teacher Quality State Grants		97,673	0	110,350	0
<b>Total U.S. Department of Education</b>		1,971,984	0	2,048,517	0
<b>Total Federal Financial Assistance</b>		\$2,145,565	\$45,415	\$2,222,098	\$45,415

*The accompanying notes are an integral part of this schedule.*

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – SUBRECIPIENTS**

The District passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note A describes, the District reports expenditures of Federal awards to subrecipients when paid in cash. During fiscal year 2011, the District received and passed through \$15,717 to community and STEM schools.

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2011, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 27, 2011.

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

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

**Dave Yost**  
Auditor of State

December 27, 2011



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of the Solon City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Solon City School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Solon City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

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

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

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

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



**Dave Yost**  
Auditor of State

December 27, 2011

**SOLON CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Solon City School District  
Cuyahoga County  
338800 Inwood Road  
Solon, Ohio 44139

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on February 28, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

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

**Dave Yost**  
Auditor of State

December 27, 2011

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# Dave Yost • Auditor of State

**SOLON CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 31, 2012**