

**Willoughby-Eastlake City
School District
Lake County, Ohio**
Audited Financial Statements

June 30, 2011



Dave Yost • Auditor of State

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

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

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

February 29, 2012

**Willoughby-Eastlake City School District
Lake County, Ohio**

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**Willoughby-Eastlake City School District
Lake County, Ohio**

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December 29, 2011

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the governmental activities, each major fund, and the aggregate remaining fund information that collectively comprise School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

Willoughby-Eastlake City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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

Financial Highlights

Key financial highlights for 2011 are as follows:

- Total net assets decreased \$877,510, which represents a 4 percent decrease from 2010.
- General revenues accounted for \$88,308,401 or 86 percent of all revenues for governmental activities. For governmental activities, program-specific revenues in the form of charges for services, sales, grants or contributions accounted for \$13,800,261 or 14 percent of total revenues of \$102,108,662.
- Total program expenses were \$102,986,172, with instruction representing 58 percent of total expenses.
- Capital assets increased by \$929,502, with the value of capital additions exceeding depreciation on older assets and deletions.
- Outstanding debt increased by \$22,425,000 to \$23,055,000 through the issuance of new debt.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Willoughby-Eastlake City School District, the general and building funds are by far the most significant funds.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

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

The governmental fund financial statements begin on page 14.

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

Reporting the School District's Fiduciary Responsibilities

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements begin on page 22.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 24.

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Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

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

(Table 1)
Net Assets
Governmental Activities

	2011	Restated 2010
Assets		
Current and Other Assets	\$ 104,414,342	\$ 85,222,795
Capital Assets	16,419,381	15,489,879
<i>Total Assets</i>	120,833,723	100,712,674
Liabilities		
Total Current and Other Liabilities	64,266,472	66,031,317
Long-Term Liabilities:		
Due Within One Year	2,065,341	2,312,798
Due in More than One Year	34,706,095	11,695,234
<i>Total Liabilities</i>	101,037,908	80,039,349
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,886,925	15,489,879
Restricted:		
Capital Projects	609,932	1,849,309
Debt Service	166,096	546,481
Other Purposes	1,476,996	1,895,777
Unrestricted (Deficit)	1,655,866	891,879
<i>Total Net Assets</i>	\$ 19,795,815	\$ 20,673,325

Total assets increased by \$20,121,049. Equity in pooled cash and investments increased by \$18,951,351 due to unspent debt proceeds at the end of the fiscal year.

Total liabilities increased by \$20,998,559. The \$1,764,845 decrease to current liabilities was primarily the result of decreased deferred revenue due to minor decreases in intergovernmental receivable and property taxes receivable and an increase in the amount of delinquent property taxes which are recorded and increase in amount available for advance as revenue on the entity-wide statements. Long-term liabilities increased by \$22,763,404 due to the issuance of tax anticipation notes and certificates of participation during the fiscal year.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

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

(Table 2)
Change in Net Assets
Governmental Activities

	2011	2010 *
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 5,148,503	\$ 5,242,911
Operating Grants & Contributions	8,651,758	7,614,000
<i>Total Program Revenues</i>	<u>13,800,261</u>	<u>12,856,911</u>
<i>General Revenue:</i>		
Property Taxes	59,164,091	55,733,626
Grants and Entitlements	28,692,609	28,181,066
Investment Earnings	67,620	122,053
Miscellaneous	384,081	489,689
<i>Total General Revenues</i>	<u>88,308,401</u>	<u>84,526,434</u>
<i>Total Revenues</i>	<u>102,108,662</u>	<u>97,383,345</u>
Program Expenses		
Instruction	59,407,079	55,546,588
<i>Support Services:</i>		
Pupil and Instructional Staff	11,799,737	10,625,327
Board of Education, Administration, Fiscal and Business	8,033,770	8,024,141
Operation & Maintenance of Plant	8,955,767	9,441,295
Pupil Transportation	7,025,333	6,651,526
Central	1,402,624	1,377,796
<i>Operation of Non-Instruction Services:</i>		
Food Service	2,515,616	2,451,473
Community Services	1,299,594	1,246,363
Extracurricular Activities	2,121,184	2,239,099
Interest and Fiscal Charges	425,468	43,878
<i>Total Program Expenses</i>	<u>102,986,172</u>	<u>97,647,486</u>
Increase (Decrease) in Net Assets	<u>\$ (877,510)</u>	<u>\$ (264,141)</u>

* 2010 was not restated for changes in fund structure noted in Note 3. These activities are deemed insignificant and would not impact the entity-wide analysis.

Operating grants and contributions increased \$1,037,758 from 2010 due to an increase in the American Recovery and Reinvestment Act grants. This increase in revenue also allowed the School District to spend more on instructional expenses. The increase in instruction and student support services is primarily due to increased payments to Lake Educational Service Center for personnel to serve special education students.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Governmental Activities

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

The School District, which is very dependent upon local property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 58 percent of revenues for governmental activities for Willoughby-Eastlake City Schools in fiscal year 2011.

The largest governmental activities program expense remains instruction, comprising 58 percent of expenses. When combined with pupil and instructional support, these categories make up 69 percent of total expenses.

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

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

(Table 3)
Governmental Activities
Cost of Services

	2011	2010 *	2011	2010 *
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 59,407,079	\$ 55,546,588	\$ (52,498,829)	\$ (49,522,792)
Support Services:				
Pupil and Instructional Staff	11,799,737	10,625,327	(10,411,999)	(9,187,102)
Board of Education, Administration, Fiscal and Business	8,033,770	8,024,141	(7,837,819)	(7,829,012)
Operation and Maintenance of Plant	8,955,767	9,441,295	(8,893,473)	(9,392,984)
Pupil Transportation	7,025,333	6,651,526	(6,097,416)	(5,586,760)
Central	1,402,624	1,377,796	(1,368,049)	(1,332,435)
Operation of Non-Instructional	3,815,210	3,697,836	(133,736)	(293,202)
Extracurricular Activities	2,121,184	2,239,099	(1,519,122)	(1,602,410)
Interest and Fiscal Charges	425,468	43,878	(425,468)	(43,878)
Total Expenses	\$ 102,986,172	\$ 97,647,486	\$ (89,185,911)	\$ (84,790,575)

* 2010 was not restated for changes in fund structure noted in Note 3. These activities are deemed insignificant and would not impact the entity-wide analysis.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

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

The School District's Funds

Information about the School District's major funds starts on page 14. These governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, including other financing sources, of \$124,585,799 and expenditures, including other financing uses of \$104,737,068. The net change in fund balance for the year was most significant in the building fund, an increase of \$20,581,813. The increase in the building fund balance was due to the issuance of tax anticipation notes and certificates of participation during the year.

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the School District amended its general fund budget several times to allow for changes in economic conditions.

For the general fund, the final budget-basis estimated revenue, including other financing sources, was \$84,756,819, \$11,750,026 under the original budget estimate of \$96,506,845. Total actual revenues and other financing sources were \$89,336,391, \$4,579,572 over the final budget estimate. The variance between the actual revenue and final budget was primarily caused by property tax and intergovernmental receipts exceeding expectations.

The final budget-basis expenditures, including other financing uses, were \$92,826,767, which are the same as the original budget estimate. Total actual expenditures (cash outlays plus encumbrances and other financing uses) were \$91,743,643, \$1,083,124 below the final budget amount due to cost savings across all School District functions.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$16,419,381 invested in land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. See Note 9 to the basic financial statements for additional information on capital assets.

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

	2011	2010
Land	\$ 560,374	\$ 560,374
Construction in Progress	913,105	0
Buildings and Improvements	11,268,836	11,667,549
Furniture and Equipment	571,727	553,206
Vehicles	3,105,339	2,708,750
Totals	\$ 16,419,381	\$ 15,489,879

The \$929,502 increase in capital assets is due to current year capital outlays exceeding depreciation.

Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for instructional materials. For fiscal year 2011, this amounted to \$1,284,371 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

Debt

At June 30, 2011, the School District had \$23,055,000 in outstanding long-term obligations with \$325,000 due within one year. Table 5 summarizes debt outstanding.

(Table 5)
Outstanding Debt, at June 30
Governmental Activities

	2011	2010
Library Improvement Refunding Bonds	\$ 325,000	\$ 630,000
QSCB Tax Anticipation Notes	8,625,000	0
QSCB Certificates of Participation	4,320,000	0
Tax Exempt Certificates of Participation	9,785,000	0
	\$ 23,055,000	\$ 630,000

See Note 16 to the basic financial statements for additional information on debt.

Willoughby-Eastlake City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Current Issues

The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans to ensure financial stability. They are working within the five-year financial forecast, the five-year capital repairs and renovations plan, and the five-year enrollment projections. The School District has the necessary revenue base to support current program levels for the current fiscal year only.

The sudden downturn in the economy has put pressures on both the State budget as well as the local School District budget. The local tax base has been weakened as a result of the current economic conditions and therefore negatively impacts local tax revenues. The ongoing legislative efforts to support the existence of community (charter) schools come at the expense of their current State subsidy. This year approximately \$798,000 will be deducted from their State subsidy and redirected to local community (charter) schools. The School District has also been impacted by the continuing national trend of rapidly escalating employee benefit costs.

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

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

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

Contacting the School District's Fiscal Management

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

Willoughby-Eastlake City School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 43,489,100
Receivables:	
Taxes	58,023,824
Intergovernmental	2,175,716
Deferred Charges	725,702
Nondepreciable Capital Assets	1,473,479
Depreciable Capital Assets (Net)	<u>14,945,902</u>
<i>Total Assets</i>	<u>120,833,723</u>
Liabilities	
Accounts Payable	499,284
Contracts Payable	338,764
Retainage Payable	53,179
Accrued Wages and Benefits	9,775,151
Accrued Interest Payable	376,924
Intergovernmental Payable	3,149,902
Deferred Revenue	49,113,437
Claims Payable	959,831
Long Term Liabilities:	
Due Within One Year	2,065,341
Due In More Than One Year	<u>34,706,095</u>
<i>Total Liabilities</i>	<u>101,037,908</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,886,925
Restricted For:	
Capital Outlay	609,932
Debt Service	166,096
Other Purposes	1,476,996
Unrestricted	<u>1,655,866</u>
<i>Total Net Assets</i>	<u>\$ 19,795,815</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 40,404,785	\$ 848,277	\$ 897,846	\$ (38,658,662)
Special	17,193,287	1,316,280	3,470,006	(12,407,001)
Vocational	1,494,792	23,944	27,068	(1,443,780)
Adult/Continuing	314,215	146,972	177,857	10,614
Support Services:				
Pupils	8,121,363	53,230	739,981	(7,328,152)
Instructional Staff	3,678,374	2,651	591,876	(3,083,847)
Board of Education	386,092	0	0	(386,092)
Administration	5,546,694	104,190	91,761	(5,350,743)
Fiscal	1,744,151	0	0	(1,744,151)
Business	356,833	0	0	(356,833)
Operation and Maintenance of Plant	8,955,767	28,532	33,762	(8,893,473)
Pupil Transportation	7,025,333	327,898	600,019	(6,097,416)
Central	1,402,624	0	34,575	(1,368,049)
Operation of Non-Instructional Services:				
Food Service Operations	2,515,616	1,218,685	1,223,894	(73,037)
Community Services	1,299,594	580,241	658,654	(60,699)
Extracurricular Activities	2,121,184	497,603	104,459	(1,519,122)
Interest and Fiscal Charges	425,468	0	0	(425,468)
<i>Total Governmental Activities</i>	<u>\$ 102,986,172</u>	<u>\$ 5,148,503</u>	<u>\$ 8,651,758</u>	<u>(89,185,911)</u>
 General Revenues				
Property Taxes Levied for:				
General Purposes				57,847,642
Debt Service				81,806
Capital Outlay				1,106,784
Other Purposes				127,859
Grants and Entitlements Not Restricted to Specific Programs				28,692,609
Investment Earnings				67,620
Miscellaneous				384,081
<i>Total General Revenues</i>				<u>88,308,401</u>
<i>Change in Net Assets</i>				(877,510)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>				<u>20,673,325</u>
<i>Net Assets End of Year</i>				<u>\$ 19,795,815</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Balance Sheet
Governmental Funds
June 30, 2011

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 14,065,726	\$ 21,045,026	\$ 3,966,242	\$ 39,076,994
Receivables:				
Taxes	56,919,421	0	1,104,403	58,023,824
Interfund	1,510,900	0	0	1,510,900
Intergovernmental	600,071	0	1,575,645	2,175,716
<i>Total Assets</i>	<u>\$ 73,096,118</u>	<u>\$ 21,045,026</u>	<u>\$ 6,646,290</u>	<u>\$ 100,787,434</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 158,437	\$ 71,270	\$ 267,522	\$ 497,229
Contracts Payable	0	338,764	0	338,764
Retainage Payable	0	53,179	0	53,179
Accrued Wages and Benefits	9,143,211	0	631,940	9,775,151
Interfund Payable	0	0	1,510,900	1,510,900
Intergovernmental Payable	2,942,216	0	207,686	3,149,902
Deferred Revenue	51,577,315	0	2,033,708	53,611,023
<i>Total Liabilities</i>	<u>63,821,179</u>	<u>463,213</u>	<u>4,651,756</u>	<u>68,936,148</u>
Fund Balances				
Nonspendable	4,515	0	0	4,515
Restricted	0	20,581,813	2,553,701	23,135,514
Committed	457,729	0	0	457,729
Assigned	640,021	0	0	640,021
Unassigned	8,172,674	0	(559,167)	7,613,507
<i>Total Fund Balances</i>	<u>9,274,939</u>	<u>20,581,813</u>	<u>1,994,534</u>	<u>31,851,286</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 73,096,118</u>	<u>\$ 21,045,026</u>	<u>\$ 6,646,290</u>	<u>\$ 100,787,434</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2011*

Total Governmental Fund Balances		\$ 31,851,286
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,419,381
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$ 2,913,844	
Charges for Services	390,239	
Intergovernmental	<u>1,193,503</u>	
Total		4,497,586
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.		3,450,220
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		725,702
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(376,924)
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	(325,000)	
Bond Premium	(1,217)	
Refunding Loss	635	
Tax Anticipation Notes	(8,625,000)	
Certificates of Participation	(14,105,000)	
Early Retirement Incentive	(2,378,048)	
Healthcare Termination Benefits	(1,940,392)	
Compensated Absences	<u>(9,397,414)</u>	
Total		<u>(36,771,436)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 19,795,815</u></u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2011

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 57,247,890	\$ 0	\$ 1,314,167	\$ 58,562,057
Intergovernmental	27,438,956	0	9,819,010	37,257,966
Investment Income	67,620	6,989	523	75,132
Tuition and Fees	2,086,244	0	269,307	2,355,551
Extracurricular Activities	254,199	0	392,811	647,010
Rentals	225,793	0	0	225,793
Charges for Services	585,680	0	1,219,231	1,804,911
Contributions and Donations	83,033	0	73,758	156,791
Miscellaneous	321,571	0	73,710	395,281
<i>Total Revenues</i>	<u>88,310,986</u>	<u>6,989</u>	<u>13,162,517</u>	<u>101,480,492</u>
Expenditures				
Current:				
Instruction:				
Regular	39,416,098	631	882,397	40,299,126
Special	13,895,605	0	3,217,210	17,112,815
Vocational	1,307,711	0	29,570	1,337,281
Adult/Continuing	0	0	332,067	332,067
Support Services:				
Pupils	7,259,001	58,686	765,513	8,083,200
Instructional Staff	3,066,147	0	684,535	3,750,682
Board of Education	384,030	0	2,062	386,092
Administration	5,174,443	2,469	350,134	5,527,046
Fiscal	1,367,565	0	364,048	1,731,613
Business	362,265	0	0	362,265
Operation and Maintenance of Plant	6,998,430	239,811	1,446,216	8,684,457
Pupil Transportation	6,053,932	0	1,293,344	7,347,276
Central	492,068	131,309	801,008	1,424,385
Operation of Non-Instructional Services:				
Food Service Operations	0	0	2,509,880	2,509,880
Community Services	379,957	0	904,937	1,284,894
Extracurricular Activities	1,319,290	0	791,207	2,110,497
Capital Outlay	22,731	973,705	0	996,436
Debt Service:				
Principal Retirement	0	0	305,000	305,000
Interest and Fiscal Charges	0	23,350	28,269	51,619
Issuance Costs	0	725,215	0	725,215
<i>Total Expenditures</i>	<u>87,499,273</u>	<u>2,155,176</u>	<u>14,707,397</u>	<u>104,361,846</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>811,713</u>	<u>(2,148,187)</u>	<u>(1,544,880)</u>	<u>(2,881,354)</u>
Other Financing Sources (Uses)				
Proceeds from Sales of Capital Assets	85	0	0	85
Tax Anticipation Notes Issued	0	8,625,000	0	8,625,000
Certificates of Participation Issued	0	14,105,000	0	14,105,000
Transfers In	0	0	375,222	375,222
Transfers Out	(375,222)	0	0	(375,222)
<i>Total Other Financing Sources (Uses)</i>	<u>(375,137)</u>	<u>22,730,000</u>	<u>375,222</u>	<u>22,730,085</u>
<i>Net Change in Fund Balance</i>	436,576	20,581,813	(1,169,658)	19,848,731
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>8,838,363</u>	<u>0</u>	<u>3,164,192</u>	<u>12,002,555</u>
<i>Fund Balances End of Year</i>	<u>\$ 9,274,939</u>	<u>\$ 20,581,813</u>	<u>\$ 1,994,534</u>	<u>\$ 31,851,286</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds \$ 19,848,731

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

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

Capital Asset Additions	\$ 1,768,376	
Current Year Depreciation	(837,504)	930,872

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,370)

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

Delinquent Property Taxes	602,034	
Charges for Services	342,971	
Grants	(339,103)	605,902

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 305,000

Debt proceeds issued in the governmental funds that increase long-term in the statement of net assets are not reported as revenues.

Tax Anticipation Notes	(8,625,000)	
Certificates of Participation	(14,105,000)	(22,730,000)

Issuance costs are reported as an expenditure when paid in the governmental funds, but are deferred on the statement of net assets. 725,215

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

Accrued Interest Payable	(373,837)	
Amortization of Issuance Costs	(6,120)	
Amortization of Premium on Bonds	14,244	
Amortization of Refunding Loss	(8,136)	(373,849)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 156,501

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

Compensated Absences	(257,059)	
Healthcare Termination Benefits	(77,222)	
Early Retirement Incentive	(10,231)	(344,512)

Change in Net Assets of Governmental Activities \$ (877,510)

See accompanying notes to the basic financial statements.

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

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 55,038,733	\$ 53,781,136	\$ 55,163,676	\$ 1,382,540
Intergovernmental	34,177,250	24,486,060	27,438,956	2,952,896
Investment Income	84,226	60,343	67,620	7,277
Tuition and Fees	2,112,395	1,513,411	1,695,921	182,510
Rentals	281,720	201,837	226,177	24,340
Charges for Services	36,935	26,462	29,653	3,191
Miscellaneous	310,401	222,385	249,203	26,818
<i>Total Revenues</i>	<u>92,041,660</u>	<u>80,291,634</u>	<u>84,871,206</u>	<u>4,579,572</u>
Expenditures				
Current:				
Instruction:				
Regular	37,834,518	37,834,518	37,354,108	480,410
Special	13,964,654	13,964,654	13,787,145	177,509
Vocational	1,257,227	1,257,227	1,241,263	15,964
Support Services				
Pupils	7,195,465	7,195,465	7,104,099	91,366
Instructional Staff	2,985,076	2,985,076	2,947,173	37,903
Board of Education	389,364	389,364	384,420	4,944
Administration	5,059,114	5,059,114	4,994,875	64,239
Fiscal	1,442,922	1,442,922	1,424,600	18,322
Business	382,952	382,952	378,089	4,863
Operation and Maintenance of Plant	7,074,227	7,074,227	6,984,401	89,826
Pupil Transportation	6,007,570	6,007,570	5,931,288	76,282
Central	578,623	578,623	571,276	7,347
Extracurricular Activities	1,091,338	1,091,338	1,077,481	13,857
Capital Outlay	23,023	23,023	22,731	292
<i>Total Expenditures</i>	<u>85,286,073</u>	<u>85,286,073</u>	<u>84,202,949</u>	<u>1,083,124</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>6,755,587</u>	<u>(4,994,439)</u>	<u>668,257</u>	<u>5,662,696</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	85	85	85	0
Advances In	4,465,100	4,465,100	4,465,100	0
Advances Out	(4,911,100)	(4,911,100)	(4,911,100)	0
Transfers Out	(2,629,594)	(2,629,594)	(2,629,594)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(3,075,509)</u>	<u>(3,075,509)</u>	<u>(3,075,509)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	3,680,078	(8,069,948)	(2,407,252)	5,662,696
<i>Fund Balance Beginning of Year - Restated (See Note 3)</i>	13,031,476	13,031,476	13,031,476	0
Prior Year Encumbrances Appropriated	597,818	597,818	597,818	0
<i>Fund Balance End of Year</i>	<u>\$ 17,309,372</u>	<u>\$ 5,559,346</u>	<u>\$ 11,222,042</u>	<u>\$ 5,662,696</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2011

	Governmental Activities - Internal Service Fund
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 4,412,106
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	2,055
Claims Payable	959,831
<i>Total Liabilities</i>	961,886
Net Assets	
Unrestricted	\$ 3,450,220

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenue	
Charges for Services	<u>\$ 11,622,527</u>
Operating Expenses	
Fringe Benefits	155,956
Purchased Services	658,687
Claims	<u>10,651,383</u>
<i>Total Operating Expenses</i>	<u>11,466,026</u>
<i>Change in Net Assets</i>	156,501
<i>Net Assets Beginning of Year</i>	<u>3,293,719</u>
<i>Net Assets End of Year</i>	<u><u>\$ 3,450,220</u></u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
<hr style="border-top: 3px double #000;"/>	
<i>Increase in Cash and Investments</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 11,622,527
Cash Paid for Goods and Services	(658,937)
Cash Paid for Employee Benefits	(155,956)
Cash Paid for Claims	(10,541,929)
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	<u>265,705</u>
<i>Net Increase in Cash and Investments</i>	265,705
<i>Cash and Investments Beginning of Year</i>	<u>4,146,401</u>
<i>Cash and Investments End of Year</i>	<u><u>\$ 4,412,106</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 156,501
Adjustments:	
Increase (Decrease) in Liabilities:	
Accounts Payable	(250)
Claims Payable	109,454
	<hr/>
<i>Total Adjustments</i>	<u>109,204</u>
<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 265,705</u></u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Investments	\$ 156,600	\$ 207,395
	<u> </u>	<u> </u>
Liabilities		
Accounts Payable	4,000	\$ 6,423
Due to Students	0	200,972
	<u> </u>	<u> </u>
<i>Total Liabilities</i>	4,000	\$ 207,395
	<u> </u>	<u> </u>
Net Assets		
Held in Trust for Scholarships	\$ 152,600	
	<u> </u>	

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 2,000
Investment Earnings	203
	2,203
<i>Total Additions</i>	<i>2,203</i>
Deductions	
Payments in Accordance with Trust Agreements	4,375
	(2,172)
<i>Change in Net Assets</i>	<i>(2,172)</i>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<i>154,772</i>
<i>Net Assets End of Year</i>	<i>\$ 152,600</i>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally elected five-member board and provides educational services as mandated by State and federal agencies. The board controls the School District's thirteen instructional facilities, staffed by 471 classified personnel, 596 certified full-time teaching personnel and 22 administrative employees to provide services to students and other community members.

The School District is located in Lake County, Ohio and includes the cities of Willoughby, Eastlake, Willoughby Hills and Willowick and the villages of Lakeline, Timberlake, and Waite Hill, Lake County, Ohio. The enrollment for the School District during the 2011 fiscal year was 8,632. The School District operates seven elementary schools (K-5), three middle schools (6-8), two high schools (9-12), and a technical center.

Reporting Entity

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

Non-Public Schools – Within the School District boundaries, there are various non-public schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed by the School District on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity on the financial statements of the School District.

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

The School District participates in a jointly governed organization and a related organization. These organizations are the Ohio Schools Council Association and the Willoughby-Eastlake Public Library. These organizations are discussed in Notes 17 and 18 to the basic financial statements.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Building Fund The building fund is used to account for the receipts and expenditures related to the construction and renovations of facilities of the School District being financed through debt proceeds.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and high school reunions.

C. Measurement Focus

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

The private purpose trust fund is reported using the economic resources measurement focus. 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 and the statements for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Cash and Investments

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

During fiscal year 2011, investments were limited to STAROhio, certificates of deposit and money market accounts.

STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2011.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$67,620, which includes \$40,486 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as “equity in pooled cash and investments.”

G. Deferred Charges

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

H. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using appropriate price-level index to deflate the cost to acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

I. Interfund Balances

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

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination 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.

K. Accrued Liabilities and Long-Term Obligations

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2011, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities and grants.

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

M. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

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

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

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

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

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

P. Extraordinary and Special Items

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

Q. Estimates

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

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

A. Changes in Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*” and GASB Statement No. 59, “*Financial Instruments Omnibus*.”

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement 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. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

B. Restatement of Fund Balance and Net Assets

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” These fund reclassifications had the following effect on the School District’s governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund Balance Previously Reported at June 30, 2010	\$ 8,587,153	\$ 3,585,717	\$ 12,172,870
Fund Reclassification:			
Private Purpose Trust Funds	0	(154,772)	(154,772)
Trust Fund to Agency	0	(15,543)	(15,543)
Special Trust	11,984	(11,984)	0
Uniform School Supplies Fund	31,225	(31,225)	0
Special Services	7,383	(7,383)	0
Community Education	14,163	(14,163)	0
Latchkey/Preschool	22,812	(22,812)	0
Public School Support Fund	<u>163,643</u>	<u>(163,643)</u>	<u>0</u>
Restated Fund Balance at July 1, 2010	<u>\$ 8,838,363</u>	<u>\$ 3,164,192</u>	<u>\$ 12,002,555</u>

The fund reclassifications had the following effect on net assets previously reported:

	<u>Governmental Activities</u>	<u>Private Purpose Trust Funds</u>
Net Assets Previously Reported at June 30, 2010	\$ 20,843,640	\$ 0
Fund Reclassification:		
Private Purpose Trust Funds	(154,772)	154,772
Trust Fund to Agency	<u>(15,543)</u>	<u>0</u>
Restated Net Assets at July 1, 2010	<u>\$ 20,673,325</u>	<u>\$ 154,772</u>

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. Pursuant to GASB Statement No. 54, only the legally budgeted general fund should be reported in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary basis fund balance at June 30, 2010 is as follows:

	<u>General Fund</u>
Balance at June 30, 2010	\$ 13,972,431
Funds Budgeted Elsewhere	<u>(940,955)</u>
Restated Balance at July 1, 2010	<u>\$ 13,031,476</u>

Note 4 – Fund Deficits

The following funds had a deficit fund balance as of June 30, 2011:

Special Revenue Funds:

Food Service	\$ 235,258
Preschool at Risk	6,292
Education Jobs	20,809
Title III	1,018
Title I	260,189
Preschool Grant	20,845
Class Size Reduction	14,756

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

Note 5 - Budgetary Basis of Accounting

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 5 - Budgetary Basis of Accounting (Continued)

4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

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

	<u>General</u>
GAAP Basis	\$ 436,576
Net Adjustment for Revenue Accruals	(2,114,603)
Advances In	4,465,100
Net Adjustment for Expenditure Accruals	754,098
Advances Out	(4,911,100)
Adjustment for Encumbrances	(750,203)
Funds Budgeted Elsewhere **	(287,120)
Budget Basis	<u>\$ (2,407,252)</u>

**As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting," *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes special trust, uniform school supplies, special services, community education, internal service, public school support, latchkey/preschool and termination benefits.

Note 6 - Deposits and Investments

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

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

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

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

Willoughby-Eastlake City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 6 - Deposits and Investments (Continued)

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

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

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 6 - Deposits and Investments (Continued)

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2011, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year-end, the carrying amount of the School District's deposits was \$43,069,199, which includes \$245 of cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2011, \$42,722,900 of the School District's bank balance of \$44,652,831 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2011, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
STAROhio	<u>\$ 783,896</u>	<u>\$ 783,896</u>

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

Willoughby-Eastlake City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 6 - Deposits and Investments (Continued)

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	<u>\$ 783,896</u>	<u>100.00%</u>

Note 7 - Property Taxes

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

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

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 7 - Property Taxes (Continued)

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2011 was \$5,893,024 in the general fund and \$103,509 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2010, was \$3,808,810 in the general fund, \$16,200 in the bond retirement debt service fund, and \$70,558 in the permanent improvement capital projects fund.

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 7 - Property Taxes (Continued)

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 1,636,283,600	94.07%	\$ 1,660,656,370	94.70%
Public Utility Personal	101,712,780	5.85%	93,014,980	5.30%
Tangible Personal Property	1,443,280	0.08%	0	0.00%
Total Assessed Values	<u>\$ 1,739,439,660</u>		<u>\$ 1,753,671,350</u>	
Tax rate per \$1,000 of assessed valuation	<u>\$ 52.81</u>		<u>\$ 52.55</u>	

Note 8 - Receivables

Receivables at June 30, 2011, consisted of taxes, interfund and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 9 - Capital Assets

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

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 560,374	\$ 0	\$ 0	\$ 560,374
Construction in Progress	0	913,105	0	913,105
<i>Total Capital Assets Being Depreciated</i>	<u>560,374</u>	<u>913,105</u>	<u>0</u>	<u>1,473,479</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	27,062,072	0	0	27,062,072
Furniture and Equipment	1,767,400	98,211	(17,438)	1,848,173
Vehicles	5,431,171	757,060	(101,619)	6,086,612
<i>Total Capital Assets Being Depreciated</i>	<u>34,260,643</u>	<u>855,271</u>	<u>(119,057)</u>	<u>34,996,857</u>
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(15,394,523)	(398,713)	0	(15,793,236)
Furniture and Equipment	(1,214,194)	(78,320)	16,068	(1,276,446)
Vehicles	(2,722,421)	(360,471)	101,619	(2,981,273)
<i>Total Accumulated Depreciation</i>	<u>(19,331,138)</u>	<u>(837,504) *</u>	<u>117,687</u>	<u>(20,050,955)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>14,929,505</u>	<u>17,767</u>	<u>(1,370)</u>	<u>14,945,902</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 15,489,879</u>	<u>\$ 930,872</u>	<u>\$ (1,370)</u>	<u>\$ 16,419,381</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 227,228
Special	1,036
Adult Continuing	1,849
Support Services:	
Pupils	2,068
Administration	22,245
Fiscal	367
Business	360
Operation and Maintenance of Plant	216,758
Pupil Transportation	334,121
Central	7,328
Operation of Non-Instructional Services:	
Food Service Operations	3,178
Community Services	5,952
Extracurricular Activities	15,014
<i>Total Depreciation Expense</i>	<u>\$ 837,504</u>

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 10 – Interfund Transactions

A. Interfund Transfers

During the fiscal year, the School District transferred \$375,222 to the athletics fund to provide additional resources for current operations. Interfund transfers between governmental funds are eliminated in the statement of activities.

B. Interfund Balances

Interfund balances at June 30, 2011 consist of a \$1,510,900 payable from the other governmental funds to the general fund. The primary purpose of the interfund balance is to cover costs in the fund where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. These advances are expected to be repaid within one year. Interfund loans between governmental activities are eliminated on the statement of net assets.

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the School District was part of a group purchasing consortium of public school districts in Northeast Ohio. The consortium placed coverage through the Ohio Casualty Insurance Company group affinity program. The company carried the property insurance (which includes inland marine, earthquake, and crime), the fleet insurance and covered the boilers and machinery.

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

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

B. Workers' Compensation

The School District pays a premium to the State based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The School District participates in the BWC's Retrospective Rating Program (a partly self-insured program). The firm of Corvel, Inc. provides administrative cost control and actuarial services to the School District.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 11 - Risk Management (Continued)

C. Employee Medical Benefits

The School District provides medical, surgical, prescription drug and dental benefits to its employees on a self-insured basis. A third party, Medical Mutual, reviews all claims which are then paid by the School District. A premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District maintains stop-loss coverage for its insurance program. Aggregate stop-loss is maintained at \$10,942,547 for the one year period ending October 31, 2011.

The claims liability of \$959,831 reported in the internal service fund at June 30, 2011 is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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

	<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2010	\$ 708,163	\$ 9,987,603	\$ 9,845,389	\$ 850,377
2011	\$ 850,377	\$ 10,651,383	\$ 10,541,929	\$ 959,831

Note 12 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s contributions for pension obligations to SERS for the years ended June 30, 2011, 2010 and 2009 were \$1,627,169, \$1,857,969 and \$1,310,136, respectively; 47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 12 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System

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

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

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

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$5,582,155, \$5,783,819 and \$5,471,210, respectively; 84 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 \$167,848 made by the School District and \$119,891 made by the plan members.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 12 – Defined Benefit Pension Plans (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the 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 SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$197,024, \$66,875, and \$599,578, respectively; 47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 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 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$104,712, \$110,490, and \$108,097, respectively; 47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 13 - Postemployment Benefits (Continued)

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State Statute. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health 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 Health 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 School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$429,397, \$444,909, and \$420,862, respectively; 84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Note 14 - Employee Benefits

A. Compensated Absences

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

B. Early Retirement Incentive and Health Care Termination Benefit Payable

Classified Employees

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 14 - Employee Benefits (Continued)

Certified Employees

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

C. Life Insurance

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

Note 15 - Contractual Commitments

At June 30, 2011, the School District had the following contractual commitments:

<u>Contractor</u>	<u>Purpose</u>	<u>Amount of Contract</u>	<u>Expended at 6/30/11</u>	<u>Amount Remaining on Contract</u>
Whitehouse Construction	Edison Elementary Addition	\$ 3,418,225	\$ 611,559	\$ 2,806,666

Note 16 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2011 were as follows:

	<u>Balance 06/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/2011</u>	<u>Amounts Due Within One Year</u>
<i>Governmental Activities</i>					
Library Improvement Refunding Bonds	\$ 630,000	\$ 0	\$ (305,000)	\$ 325,000	\$ 325,000
Unamortized Premium	15,461	0	(14,244)	1,217	0
Unamortized Refunding Loss	(8,771)	0	8,136	(635)	0
QSCB Tax Anticipation Notes	0	8,625,000	0	8,625,000	0
QSCB Certificates of Participation	0	4,320,000	0	4,320,000	0
Tax Exempt Certificates of Participation	0	9,785,000	0	9,785,000	0
Early Retirement Incentive	2,367,817	1,340,736	(1,330,505)	2,378,048	947,461
Healthcare Termination Benefits	1,863,170	450,000	(372,778)	1,940,392	214,096
Compensated Absences	9,140,355	1,014,372	(757,313)	9,397,414	578,784
<i>Total Governmental Activities</i>					
<i>Long-Term Obligations</i>	\$ 14,008,032	\$ 25,535,108	\$ (2,771,704)	\$ 36,771,436	\$ 2,065,341

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 16 - Long-Term Obligations (Continued)

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

The bonds were issued at a premium of \$113,982. Proceeds of \$2,270,045 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the 1991 Library Improvement Bonds. As a result, \$1,455,000 of these bonds is considered defeased. The principal balance outstanding on the defeased bonds was \$345,000 at June 30, 2011.

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

On March 22, 2011, the School District issued \$8,625,000 of Qualified School Construction Bonds (QSCB) tax anticipation notes with an interest rate of 5.294 percent. The proceeds will be used for various construction and improvement projects throughout the School District. The notes mature on March 1, 2021.

On March 22, 2011, the School District issued \$14,105,000 of Certificates of Participation. Of this issuance, \$4,320,000 are federally taxable Qualified School Construction Bonds and \$9,785,000 are tax exempt certificates. The proceeds of the certificates will be used for various construction and improvement projects throughout the School District. The QSCB certificates have an interest rate of 6.544 percent and mature on March 1, 2026. The tax exempt certificates have interest rates varying from 5.00 to 5.375 percent and mature on March 1, 2041.

All debt will be paid from the debt service and building funds. The early retirement incentive, healthcare termination benefits and compensated absences will be paid from the General Fund.

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Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 16 - Long-Term Obligations (Continued)

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

Fiscal Year	Library Improvement Refunding Bonds		QSCB Tax Anticipation Notes		QSCB Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 325,000	\$ 9,750	\$ 0	\$ 429,972	\$ 0	\$ 266,210
2013	0	0	0	456,607	0	282,701
2014	0	0	0	456,608	0	282,701
2015	0	0	0	456,607	0	282,701
2016	0	0	0	456,608	0	282,700
2017-2021	0	0	8,625,000	2,283,038	0	1,413,504
2022-2026	0	0	0	0	4,320,000	1,413,504
Total	<u>\$ 325,000</u>	<u>\$ 9,750</u>	<u>\$ 8,625,000</u>	<u>\$ 4,539,440</u>	<u>\$ 4,320,000</u>	<u>\$ 4,224,021</u>

Fiscal Year	Tax Exempt Certificates of Participation		Total	
	Principal	Interest	Principal	Interest
2012	\$ 0	\$ 485,682	\$ 325,000	\$ 1,191,614
2013	0	515,769	0	1,255,077
2014	0	515,769	0	1,255,078
2015	0	515,769	0	1,255,077
2016	0	515,768	0	1,255,076
2017-2021	0	2,578,844	8,625,000	6,275,386
2022-2026	0	2,578,844	4,320,000	3,992,348
2027-2031	2,285,000	2,364,737	2,285,000	2,364,737
2032-2036	3,160,000	1,693,088	3,160,000	1,693,088
2037-2041	4,340,000	728,850	4,340,000	728,850
Total	<u>\$ 9,785,000</u>	<u>\$ 12,493,120</u>	<u>\$ 23,055,000</u>	<u>\$ 21,266,331</u>

Note 17 – Jointly Governed Organization

The Ohio Schools Council Association (Council) is a jointly governed organization among 108 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the board. In fiscal year 2011, the School District paid \$340,284 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Note 17 – Jointly Governed Organization (Continued)

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

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural 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 their actual usage and any necessary adjustments are made.

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

Note 18 – Related Organization

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

Note 19 - Contingencies

A. Grants

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

Willoughby-Eastlake City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 19 – Contingencies (Continued)

B. Litigation

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

Note 20 - Set-Asides

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

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

	Textbooks	Capital Improvements
Set-Aside Reserve Balance as of June 30, 2010	\$ 0	\$ 0
Current Year Set-Aside Requirement	1,284,371	1,284,371
Contributions in Excess of the Current Fiscal Year Set-Aside Requirement	0	0
Current Year Qualifying Disbursements	(3,381,347)	0
Excess Qualified Expenditures from Prior Years	(188,361)	0
Current Year Offsets	0	(3,245,232)
Waiver Granted by Department of Education	0	0
Prior Year Offsets from Bond Proceeds	0	0
Totals	\$ (2,285,337)	\$ (1,960,861)
Balance Carried Forward to Fiscal Year 2012	\$ 0	\$ 0
Set-Aside Reserve Balance as of June 30, 2011	\$ 0	\$ 0

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. Effective July 1, 2011, textbook set-aside laws have been repealed. Therefore, the negative amount is not presented as being carried forward to future years.

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement of future years.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

Note 21 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:				
Unclaimed Monies	\$ 4,515	\$ 0	\$ 0	\$ 4,515
Restricted for:				
Debt Service	0	0	337,631	337,631
Capital Outlay	0	20,581,813	1,007,775	21,589,588
Special Education	0	0	19,722	19,722
Other Purposes	0	0	1,188,573	1,188,573
Total Restricted	<u>0</u>	<u>20,581,813</u>	<u>2,553,701</u>	<u>23,135,514</u>
Committed for:				
Termination Benefits	457,729	0	0	457,729
Assigned for:				
Encumbrances	640,021	0	0	640,021
Unassigned	<u>8,172,674</u>	<u>0</u>	<u>(559,167)</u>	<u>7,613,507</u>
<i>Total Fund Balance</i>	<u><u>\$ 9,274,939</u></u>	<u><u>\$ 20,581,813</u></u>	<u><u>\$ 1,994,534</u></u>	<u><u>\$ 31,851,286</u></u>

December 29, 2011

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

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

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Willoughby-Eastlake City School District (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Willoughby-Eastlake City School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Willoughby-Eastlake City School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Willoughby-Eastlake City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Willoughby-Eastlake City School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Willoughby-Eastlake City School District in a separate letter dated December 29, 2011.

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

Rea & Associates, Inc.

December 29, 2011

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

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

Compliance

We have audited the compliance of Willoughby-Eastlake City School District (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

Rea & Associates, Inc.

Willoughby-Eastlake City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I Cluster:</i>				
Title I Grants to Local Educational Agencies	2010	84.010	\$ 427,725	\$ 188,320
Title I Grants to Local Educational Agencies	2011	84.010	948,115	937,458
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	0	12,377
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	219,784	471,610
Total Title I Cluster			1,595,624	1,609,765
<i>Special Education Cluster:</i>				
Special Education - Grants to States	2010	84.027	605,368	212,087
Special Education - Grants to States	2011	84.027	1,735,843	1,621,745
ARRA - Special Education - Grants to States	2010	84.391	200,505	3,862
ARRA - Special Education - Grants to States	2011	84.391	810,984	1,207,587
Total Special Education - Grants to States			3,352,700	3,045,281
Special Education - Preschool Grants	2010	84.173	10,155	0
Special Education - Preschool Grants	2011	84.173	40,071	54,300
ARRA - Special Education - Preschool Grants	2011	84.392	34,213	45,655
Total Special Education - Preschool Grants			84,439	99,955
<i>Total Special Education Cluster</i>			3,437,139	3,145,236
Title IV-A - Safe and Drug-Free Schools	2010	84.186	2,232	943
Title II-D - Education Technology	2010	84.318	980	0
Title II-D - Education Technology	2011	84.318	2,052	3,452
Total Title II-D - Education Technology			3,032	3,452
Title III - English Language Acquisition Grant	2010	84.365	21,955	16,465
Title III - English Language Acquisition Grant	2011	84.365	40,122	40,122
Title III - English Language Acquisition Grant - Immigrant	2011	84.365	1,700	2,042
Title III - English Language Acquisition Grant - Immigrant	2011	84.365	3,894	3,894
Total Title III - English Language Acquisition Grant			67,671	62,523
Title II-A - Improving Teacher Quality	2010	84.367	149,232	85,456
Title II-A - Improving Teacher Quality	2011	84.367	289,713	304,529
Total Title II-A - Improving Teacher Quality			438,945	389,985
ARRA - SFSF - Education State Grants	2011	84.394	1,010,697	1,010,697
ARRA - SFSF - Race to the Top Incentive Grants	2011	84.395	0	12,806
Education Jobs Fund	2011	84.410	478,371	427,075
<i>Direct Awards:</i>				
<i>Student Financial Assistance Cluster:</i>				
Federal Family Education Loans	N/A	84.032	109,871	109,871
Federal Pell Grant Program	N/A	84.063	218,048	218,048
Federal Direct Student Loans	N/A	84.268	354,604	354,604
Total Student Financial Assistance Cluster			682,523	682,523
Advanced Placement Program	N/A	84.330	250	250
<i>Passed Through Mentor Exempted Village School District:</i>				
Vocational Education - Basic Grants to State	2010	84.048	5,487	16,735
Vocational Education - Basic Grants to State	2011	84.048	138,737	134,265
Total Vocational Education - Basic Grants to State			144,224	151,000
Total U.S. Department of Education			\$ 7,860,708	\$ 7,496,255

(Continued)

Willoughby-Eastlake City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2011	10.555	\$ 96,428	\$ 96,428
<i>Cash Assistance:</i>				
School Breakfast Program	2011	10.553	144,678	144,678
National School Lunch Program	2011	10.555	956,684	956,684
<i>Cash Assistance Subtotal</i>			<u>1,101,362</u>	<u>1,101,362</u>
<i>Total Child Nutrition Cluster</i>			<u>1,197,790</u>	<u>1,197,790</u>
Total U.S. Department of Agriculture			<u>1,197,790</u>	<u>1,197,790</u>
U.S. DEPARTMENT OF LABOR				
<i>WIA Cluster:</i>				
<i>Passed Through the City of Cleveland:</i>				
WIA Adult Program	2010	17.258	0	2,341
WIA Adult Program	2011	17.258	61,963	34,777
<i>Total WIA Adult Program</i>			<u>61,963</u>	<u>37,118</u>
<i>Passed Through the Lake County ETA:</i>				
WIA Youth Activities	2010	17.259	17,481	2,968
WIA Youth Activities	2011	17.259	114,711	117,201
<i>Total WIA Youth Activities</i>			<u>132,192</u>	<u>120,169</u>
<i>Total WIA Cluster</i>			<u>194,155</u>	<u>157,287</u>
Total U.S. Department of Labor			<u>194,155</u>	<u>157,287</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
<i>Passed Through the Ohio Department of MRDD:</i>				
Community Alternative Funding System	N/A	93.778	6,983	0
Total U.S. Department of Health & Human Services			<u>6,983</u>	<u>0</u>
CORPORATION FOR NATIONAL & COMMUNITY SERVICES				
<i>Direct Grant:</i>				
Retired and Senior Volunteer Program	N/A	94.002	64,652	64,652
Total Corporation for National & Community Services			<u>64,652</u>	<u>64,652</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY				
<i>Passed Through the Ohio EPA:</i>				
ARRA - Clean School Bus USA	B2011F-031	66.036	1,000	0
ARRA - Clean School Bus USA	B2011F-031	66.036	35,700	35,700
Total U.S. Environmental Protection Agency			<u>35,700</u>	<u>35,700</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 9,360,988</u>	<u>\$ 8,951,684</u>

See accompanying notes to this schedule

Willoughby-Eastlake City School District
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School District’s federal award programs. The schedule has been prepared on the cash basis of accounting.

Note B – Commingled Funds

Federal money is commingled with state subsidy reimbursements for Child Nutrition Cluster, Federal Pell grant and Retired and Senior Volunteer Program. It is assumed federal moneys are expended first.

Note C – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note D – Outstanding Loans

The School District does not make Federal Family Education Loans (FFEL). For fiscal year 2011, the School District certified need for \$111,500 in Guaranteed Student Loans and Supplemental Loans. The amount presented represents the value of the new FFEL awarded during the fiscal year as follows:

Federal Stafford Loans	\$ 34,452
Federal Unsubsidized Stafford Loans	<u>75,419</u>
Total FFELs	<u>\$ 109,871</u>

Note E – Community Alternative Funding System

The School District received \$6,983 of CAFS settlement in fiscal year 2011. The amount received relates to CAFS services provided during prior years.

Note F - Transfers

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a school district can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. During fiscal year 2011, ODE authorized the following transfers from program year 2010 to 2011:

<u>CFDA</u> <u>Number</u>	<u>Program Title</u>	<u>Amount</u>
84.027	Special Education - Grants to States	\$ 2,382
84.318	Title II-D - Education Technology	5,118
84.389	ARRA - Title I Grants to LEA	18,953
84.391	ARRA - Special Education - Grants to States	223,797

Willoughby-Eastlake City School District
Schedule of Findings
OMB Circular A-133, Section .505
June 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Special Education Cluster Title I Cluster State Fiscal Stabilization Fund Education Jobs Fund	84.027, 84.173, 84.391 & 84.392 84.010 & 84.389 84.394 84.410
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

December 29, 2011

The Board of Education
Willoughby-Eastlake City School District
Lake County
34047 Ridge Road
Willoughby, Ohio 44094

INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURE

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 Willoughby-Eastlake City School 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.

We noted the Board amended its anti-harassment policy at its meeting on December 12, 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 and management and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

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Dave Yost • Auditor of State

WILLOUGHBY EASTLAKE CITY SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 13, 2012