

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2012**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Euclid City School District, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 5, 2013

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**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Euclid City School District
Euclid, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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

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


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Euclid City School District, Ohio, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23, the District restated the June 30, 2011 governmental fund balances due to a transaction being recorded as an interfund advance instead of an interfund transfer

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, on our consideration of the Euclid City School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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


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

January 15, 2013

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012 (Unaudited)

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

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets increased \$1,025,833 or by 1.6 percent. Net assets of governmental activities increased \$964,400 which represents a 1.5 percent increase from 2011 to 2012. Net assets of business-type activities increased \$61,433 which represents an 11.9 percent increase from 2011 to 2012.
- General revenues accounted for \$71,711,576 in revenue or 91.1 percent of all governmental revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$6,991,032 or 8.9 percent of total governmental revenues of \$78,702,608.
- Total assets of governmental activities experienced a slight increase of \$460,047 as current and other assets decreased by \$47,743,995 and capital assets increased by \$48,204,042. Total liabilities of governmental activities decreased by \$504,353.
- The District had \$77,738,208 in expenses related to governmental activities; only \$6,991,032 of these expenses were offset by program specific charges for services and operating grants and contributions. General revenues (primarily taxes and grants and entitlements) of \$71,711,576 were adequate to provide for these programs.
- The general fund had \$67,302,649 in revenues (including other financing sources) and \$70,214,403 in expenditures (including other financing uses). The fund balance of the general fund decreased to \$1,201,135 from \$4,112,889.

Using this Annual Financial Report

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

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

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2012?” The Statement of Net Assets and Statement of Activities answer this question. These statements include *all assets* and *all liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and Statement of Activities, the District is divided into two distinct kinds of activities:

- Governmental Activities - Most of the District’s programs and services are reported here including instruction, support services, operation and maintenance of plant services, pupil transportation, and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s food service, uniform school supplies, and customer services are reported as business activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major fund begins on page 8. Fund financial statements provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds. The District’s major governmental funds are the general fund, the bond retirement fund, and the classroom facilities fund.

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

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

The School District as a Whole

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

Table 1 provides a summary of the District’s net assets for 2012 compared to 2011:

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 81,299,358	\$ 129,043,353	\$ 783,968	\$ 689,889	\$ 82,083,326	\$ 129,733,242
Capital assets, net	78,527,464	30,323,422	42,001	75,001	78,569,465	30,398,423
Total Assets	159,826,822	159,366,775	825,969	764,890	160,652,791	160,131,665
LIABILITIES						
Current and other liabilities	42,118,237	42,436,681	202,431	155,125	\$ 42,320,668	\$ 42,591,806
Long-term liabilities:						
Due within one year	4,104,935	6,030,479	8,810	5,601	4,113,745	6,036,080
Due in more than one year	48,432,588	46,692,953	36,872	87,741	48,469,460	46,780,694
Total Liabilities	94,655,760	95,160,113	248,113	248,467	94,903,873	95,408,580
NET ASSETS						
Invested in capital assets, net of related debt	34,828,640	15,581,829	42,001	75,001	34,870,641	15,656,830
Restricted	17,980,675	35,884,347	-	-	17,980,675	35,884,347
Unrestricted	12,361,747	12,740,486	535,855	441,422	12,897,602	13,181,908
Total Net Assets	\$ 65,171,062	\$ 64,206,662	\$ 577,856	\$ 516,423	\$ 65,748,918	\$ 64,723,085

Current and other assets of governmental activities decreased \$47,743,995. Capital assets increased by \$48,204,042. The decrease in current assets is mainly due to a decrease in intergovernmental receivables of \$18,984,908 due to the District’s continuation of the Classroom Facilities Assistance Program offered by the Ohio Schools Facilities Commission (OSFC). The increase in capital assets is mainly due to the District’s school building projects within the construction in progress asset class.

The net assets of the District’s business-type activities increased by \$61,433 or 11.9 percent.

Table 2 shows the changes in net assets for fiscal year 2012 compared to 2011.

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for services	\$ 599,448	\$ 1,035,905	\$ 989,576	\$1,089,284	\$ 1,589,024	\$ 2,125,189
Operating grants and contributions	6,391,584	10,917,282	2,066,628	2,026,857	8,458,212	12,944,139
Total Program Revenues	6,991,032	11,953,187	3,056,204	3,116,141	10,047,236	15,069,328
General Revenues:						
Property taxes	35,842,223	41,372,259	-	-	35,842,223	41,372,259
School District income taxes	5,885,496	5,530,287	-	-	5,885,496	5,530,287
Grants and entitlements	29,756,947	30,853,230	-	-	29,756,947	30,853,230
Grant from OSFC for School Construction	-	24,735,683	-	-	-	24,735,683
Payment in Lieu of Taxes	109,124	63,096	-	-	109,124	63,096
Investment income	46,868	384,997	35	100	46,903	385,097
All other revenues	70,918	99,798	9,620	32,741	80,538	132,539
Total General Revenues	71,711,576	103,039,350	9,655	32,841	71,721,231	103,072,191
Total Revenues	78,702,608	114,992,537	3,065,859	3,148,982	81,768,467	118,141,519
EXPENSES						
Program Expenses:						
Instruction:						
Regular	25,842,967	29,400,824	-	-	25,842,967	29,400,824
Special	15,583,365	15,850,323	-	-	15,583,365	15,850,323
Vocational	1,311,831	1,113,993	-	-	1,311,831	1,113,993
Adult/Continuing	152,170	151,581	-	-	152,170	151,581
Other	12,978	61,117	-	-	12,978	61,117
Supporting Services:						
Pupils	4,493,068	4,659,136	-	-	4,493,068	4,659,136
Instructional Staff	5,288,715	6,802,144	-	-	5,288,715	6,802,144
Board of Education	205,005	51,915	-	-	205,005	51,915
Administration	4,779,028	5,285,593	-	-	4,779,028	5,285,593
Fiscal Services	1,904,032	1,996,702	-	-	1,904,032	1,996,702
Business	616,646	674,104	-	-	616,646	674,104
Operation and Maintenance of Plant	7,099,301	7,749,641	-	-	7,099,301	7,749,641
Pupil Transportation	4,851,679	5,057,123	-	-	4,851,679	5,057,123
Central	1,637,045	1,812,798	-	-	1,637,045	1,812,798
Operation of Non-Instructional Services	815,280	1,076,841	-	-	815,280	1,076,841
Extracurricular Activities	1,099,543	1,114,355	-	-	1,099,543	1,114,355
Interest and Fiscal Charges	2,045,555	2,101,947	-	-	2,045,555	2,101,947
Food Service	-	-	2,396,687	2,505,439	2,396,687	2,505,439
Uniform School Supplies	-	-	6,424	17,820	6,424	17,820
Customer Services	-	-	601,315	723,755	601,315	723,755
Total Expenses	77,738,208	84,960,137	3,004,426	3,247,014	80,742,634	88,207,151
Change in Net Assets	964,400	30,032,400	61,433	(98,032)	1,025,833	29,934,368
Net Assets - Beginning of Year	64,206,662	34,174,262	516,423	614,455	64,723,085	34,788,717
Net Assets - End of Year	\$ 65,171,062	\$64,206,662	\$ 577,856	\$ 516,423	\$ 65,748,918	\$64,723,085

Governmental Activities

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

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 45.5 percent of revenues for governmental activities for the District in fiscal year 2012. Property taxes decreased significantly from prior year as a result of significant reductions in both property tax collections and the amounts available for advance. General grants and entitlements represented 37.8 percent of governmental activity revenue in fiscal year 2012. Operating grants and contributions experienced a decline in funding as compared to prior year. This decline in funding is attributed to grants provided through the American Recovery and Reinvestment Act (ARRA) ending in fiscal year 2011.

Instruction comprises 55.2 percent of governmental program expenses. Pupils and Instructional Staff comprised 12.6 percent; Board of Education, Administration, Fiscal Services, and Business comprised 9.6 percent; Operations and Maintenance of Plant comprised 9.1 percent; and Pupil Transportation comprised 6.2 percent of governmental program expenses. Interest and fiscal charges were 2.6 percent of governmental program expenses. Most of the interest and fiscal charges were attributed to outstanding debt issues previously approved by the residents of the District to fund capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services for 2012 and 2011. Table 3 shows the total cost for services for governmental activities and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3 - Governmental Activities

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Instruction	\$ 42,903,311	\$ 46,577,838	\$ 38,905,218	\$ 39,972,075
Supporting Services:				
Pupils and Instructional Staff	9,781,783	11,461,280	8,140,278	8,435,345
Board of Education, Administration, Fiscal Services, and Business	7,504,711	8,008,314	7,446,179	7,590,500
Operation and Maintenance of Plant	7,099,301	7,749,641	7,046,828	7,694,657
Pupil Transportation	4,851,679	5,057,123	4,760,674	4,938,512
Central	1,637,045	1,812,798	1,637,045	1,801,994
Operation of Non-Instructional Services	815,280	1,076,841	(43,227)	46,750
Extracurricular Activities	1,099,543	1,114,355	808,626	827,729
Interest and fiscal charges	2,045,555	2,101,947	2,045,555	1,699,388
Total cost of service	<u>\$ 77,738,208</u>	<u>\$ 84,960,137</u>	<u>\$ 70,747,176</u>	<u>\$ 73,006,950</u>

The dependence upon general revenues for governmental activities is apparent. Over 91.0 percent of governmental activities are supported through taxes and other general revenues. In fiscal year 2012, other general revenues are mostly comprised of grants and entitlements. For all governmental activities, general revenue support is 91.1 percent of total governmental revenues. The community, as a whole, is the primary support for the District.

Instruction and instructional staff experienced the largest decrease in expenses when compared to prior year. These decreases can be attributed to funding from ARRA ending in fiscal year 2011 coupled with the District's efforts to control costs across all operations.

Business Type Activities

Business-type activities include the food service operation, the sale of uniform school supplies, and an automotive shop customer service operation. These programs had revenues of \$3,065,859 and expenses of \$3,004,426 in fiscal year 2012. All three activities experienced increases in net assets during fiscal year 2012. The largest increase in net assets can be attributed to the food service activity. Reviews of these operations, including consideration of price adjustments and expense control, is ongoing.

The School District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$101,640,858 and expenditures of \$132,223,839 (including other financing sources and uses). The net decrease in fund balances (including Other Financing Sources and Uses) of \$30,582,981 was due in part, to the District's continuation of the major construction projects through the OSFC. Due to the state of public school funding in Ohio, the current system does not allow for built in adjustments to revenue streams as operating costs increase. Ohio school districts are generally required to place funding issues on the ballot every three to five years in order to increase funding for the increased cost of doing business.

Due to decreases in taxes and intergovernmental revenues, the general fund experienced a net decrease in fund balance of \$2,911,754. The bond retirement fund also saw decreases in taxes when compared to prior year. This decrease in taxes attributed to the net decrease in fund balance of \$759,748. The classroom facilities fund netted a significant decrease of \$26,686,411 in fund balance due to increased capital outlay as a result of the District's continuation of the school building projects. All other governmental funds netted a decrease in fund balance of \$225,068 in total.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the District amended its general fund budget numerous times, none being significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the total final budget basis revenue was decreased to \$70,017,742 from the total original budget estimate of \$70,965,176, due to a decrease in anticipated tax revenues. Actual tax revenues were lower than the final amended budget.

The final appropriations of \$73,099,882 were increased from the original appropriations of \$72,904,884. The District did perform several legally approved transfers within line items of the general fund.

The District's ending unobligated cash balance was \$177,629 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$78,569,465 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles of which, \$78,527,464 represented governmental activities. Table 4 shows fiscal year 2012 balances compared to 2011.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,052,789	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789	\$ 2,052,789
Construction in progress	55,931,885	6,572,497	-	-	55,931,885	6,572,497
Land Improvements	963,614	992,557	-	-	963,614	992,557
Buildings and Improvements	19,294,972	19,913,397	10,650	10,950	19,305,622	19,924,347
Furniture and Equipment	-	227,386	15,278	41,548	15,278	268,934
Vehicles	284,204	564,796	16,073	22,503	300,277	587,299
Total Capital Assets	<u>\$ 78,527,464</u>	<u>\$ 30,323,422</u>	<u>\$ 42,001</u>	<u>\$ 75,001</u>	<u>\$ 78,569,465</u>	<u>\$ 30,398,423</u>

For fiscal year 2012, Ohio law required school districts to set aside three percent of certain revenues for capital improvements. For fiscal 2012, this amounted to \$938,531 for the set-aside. For fiscal year 2012, the District had qualifying disbursements or offsets exceeding the requirement. The District has budgeted to meet this requirement.

Additional information on capital asset policies and activity are contained in Notes 2 and 11 of the basic financial statements.

Debt

At June 30, 2012, the District had \$47,896,928 in debt outstanding with \$2,425,900 due within one year. Table 5 summarizes the District's bonds and notes outstanding.

Table 5 - Outstanding Debt at Year End

	Governmental Activities	
	2012	2011
General Obligation Bonds:		
Energy Conservation Bonds	\$ 2,152,100	\$ 2,404,600
School and Library Refunding	1,150,000	2,279,954
Classroom Facilities and School Improvements	38,159,828	39,239,828
Long-Term Tax Anticipation Notes	6,435,000	2,950,000
Total Outstanding Debt	\$ 47,896,928	\$ 46,874,382

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

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

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

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

In 2012, the District issued \$4.185 million, ten year tax anticipation notes for various construction projects.

At June 30, 2012, the District's overall legal debt margin was \$31,902,706 with an unvoted debt margin of \$738,711. The District maintains an A-1 bond rating.

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

For the Future

Due to the economic downturn and changes in state funding to public schools, the last several years have been very challenging. The District has responded to lost revenues by reducing operating expenditures. In fact, total General Fund expenditures in fiscal year 2012 were \$2.6 million less than in fiscal year 2008 (on a cash basis).

Most of the operating expenditure savings has come by way of staffing reductions. Over the last four years, the District has reduced its staff by over 100 full-time equivalents. Additionally, concessions equaling 3 percent of wages were negotiated with all bargaining units.

In November 2012, the voters of Euclid approved a ten-year \$5.4 million operating levy. This new funding source, along with the lower operating budget, will allow the District to operate at the current level of programs and services for several years.

In September 2012, four new elementary building were opened. These buildings represented the first phase of the District's Ohio Schools Facilities Program to completely rebuild all of the school buildings. Operational savings of approximately \$1 million per year will be realized as these four elementary buildings replaced six old elementary buildings. The Board of Education will soon start planning the second phase of the facilities program, expected to be the High School.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Stephen Vasek, Treasurer at Euclid City School District, 651 East 222 Street, Euclid, Ohio 44123-2090 or e-mail at svasek@euclid.k12.oh.us

Basic Financial Statements

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 21,728,169	\$ 429,804	\$ 22,157,973
Investments	12,545,186	-	12,545,186
Income Taxes Receivable	474,706	-	474,706
Property Taxes Receivable	44,232,047	-	44,232,047
Accounts Receivable	283,820	-	283,820
Accrued Interest Receivable	19,375	-	19,375
Intergovernmental Receivable	1,404,415	334,440	1,738,855
Internal Balances	10,000	(10,000)	-
Materials and Supplies Inventory	205,250	29,724	234,974
Prepaid Items	176,972	-	176,972
Deferred Charges	219,418	-	219,418
Nondepreciable Capital Assets	57,984,674	-	57,984,674
Depreciable Capital Assets, Net	20,542,790	42,001	20,584,791
Total Assets	159,826,822	825,969	160,652,791
LIABILITIES			
Accounts Payable	2,623,825	66,751	2,690,576
Accrued Wages and Benefits	6,993,242	30,849	7,024,091
Intergovernmental Payable	1,918,836	104,831	2,023,667
Accrued Interest Payable	570,716	-	570,716
Matured Compensated Absences Payable	6,613	-	6,613
Deferred Revenue	30,005,005	-	30,005,005
Long-term Liabilities:			
Due within one year	4,104,935	8,810	4,113,745
Due in more than one year	48,432,588	36,872	48,469,460
Total Liabilities	94,655,760	248,113	94,903,873
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	34,828,640	42,001	34,870,641
Restricted:			
Capital Projects	11,015,476	-	11,015,476
Debt Service	4,708,976	-	4,708,976
State Funded Programs	120,815	-	120,815
Federally Funded Programs	309,479	-	309,479
Student Activities	51,048	-	51,048
Other Purposes	498,746	-	498,746
Set-Asides	1,276,135	-	1,276,135
Unrestricted	12,361,747	535,855	12,897,602
Total Net Assets	\$ 65,171,062	\$ 577,856	\$ 65,748,918

See accompanying notes to the basic financial statements.

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction:						
Regular Instruction	\$ 25,842,967	\$ 170,638	\$ 1,670,385	\$ (24,001,944)	\$ -	\$ (24,001,944)
Special Instruction	15,583,365	13,335	1,969,358	(13,600,672)	-	(13,600,672)
Vocational Instruction	1,311,831	36,895	-	(1,274,936)	-	(1,274,936)
Adult/Continuing Instruction	152,170	-	123,152	(29,018)	-	(29,018)
Other Instruction	12,978	-	14,330	1,352	-	1,352
Supporting Services:						
Pupils	4,493,068	-	277,844	(4,215,224)	-	(4,215,224)
Instructional Staff	5,288,715	-	1,363,661	(3,925,054)	-	(3,925,054)
Board of Education	205,005	-	-	(205,005)	-	(205,005)
Administration	4,779,028	15,852	41,612	(4,721,564)	-	(4,721,564)
Fiscal Services	1,904,032	-	1,068	(1,902,964)	-	(1,902,964)
Business	616,646	-	-	(616,646)	-	(616,646)
Operation and Maintenance of Plant	7,099,301	22,953	29,520	(7,046,828)	-	(7,046,828)
Pupil Transportation	4,851,679	48,858	42,147	(4,760,674)	-	(4,760,674)
Central	1,637,045	-	-	(1,637,045)	-	(1,637,045)
Operation of Non-Instructional Services	815,280	-	858,507	43,227	-	43,227
Extracurricular Activities	1,099,543	290,917	-	(808,626)	-	(808,626)
Interest and Fiscal Charges	2,045,555	-	-	(2,045,555)	-	(2,045,555)
Total Governmental activities	77,738,208	599,448	6,391,584	(70,747,176)	-	(70,747,176)
Business-type activities:						
Food Service	2,396,687	391,017	2,066,628	-	60,958	60,958
Uniform School Supplies	6,424	-	-	-	(6,424)	(6,424)
Customer Services	601,315	598,559	-	-	(2,756)	(2,756)
Total Business-type activities	3,004,426	989,576	2,066,628	-	51,778	51,778
Totals	\$ 80,742,634	\$ 1,589,024	\$ 8,458,212	(70,747,176)	51,778	(70,695,398)
General Revenues:						
Property Taxes levied for:						
General Purposes				31,759,316	-	31,759,316
Debt Service				3,297,770	-	3,297,770
Capital Outlay				785,137	-	785,137
School District Income Taxes levied for:						
General Purposes				5,885,496	-	5,885,496
Payment in Lieu of Taxes				109,124	-	109,124
Grants & Entitlements not restricted to specific programs				29,756,947	-	29,756,947
Investment Income				46,868	35	46,903
All Other Revenues				70,918	9,620	80,538
Total General Revenues				71,711,576	9,655	71,721,231
Change in Net Assets				964,400	61,433	1,025,833
Net Assets - Beginning of Year				64,206,662	516,423	64,723,085
Net Assets - End of Year				\$ 65,171,062	\$ 577,856	\$ 65,748,918

See accompanying notes to the basic financial statements.

**Balance Sheet
Governmental Funds**

June 30, 2012

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 3,244,853	\$ 3,418,640	\$ 1,643,849	\$ 5,269,150	\$ 13,576,492
Investments	4,950	900,000	8,225,873	2,409,144	11,539,967
Materials and Supplies Inventory	205,250	-	-	-	205,250
Accrued Interest Receivable	1,018	-	14,111	4,246	19,375
Accounts Receivable	283,820	-	-	-	283,820
Interfund Receivable	708,734	-	-	-	708,734
Intergovernmental Receivable	116,477	-	811,672	476,266	1,404,415
Prepaid Items	11,238	-	-	165,734	176,972
Income Taxes Receivable	474,706	-	-	-	474,706
Property Taxes Receivable	39,176,078	3,185,546	-	1,870,423	44,232,047
Total Assets	\$ 44,227,124	\$ 7,504,186	\$ 10,695,505	\$ 10,194,963	\$ 72,621,778
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 214,103	-	\$ 2,277,729	\$ 123,804	\$ 2,615,636
Accrued Wages and Benefits	6,563,028	-	-	429,349	6,992,377
Intergovernmental Payable	1,585,684	-	-	59,631	1,645,315
Matured Compensated Absences Payable	-	-	-	6,613	6,613
Interfund Payable	-	-	-	698,734	698,734
Deferred Revenue	34,663,174	2,775,664	811,672	2,085,784	40,336,294
Total Liabilities	43,025,989	2,775,664	3,089,401	3,403,915	52,294,969
Fund Balances:					
Nonspendable	216,488	-	-	165,734	382,222
Restricted	-	4,728,522	7,606,104	7,041,576	19,376,202
Committed	247,764	-	-	18,848	266,612
Assigned	48,109	-	-	143,947	192,056
Unassigned (Deficit)	688,774	-	-	(579,057)	109,717
Total Fund Balances	1,201,135	4,728,522	7,606,104	6,791,048	20,326,809
Total Liabilities and Fund Balances	\$ 44,227,124	\$ 7,504,186	\$ 10,695,505	\$ 10,194,963	\$ 72,621,778

See accompanying notes to the basic financial statements.

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

June 30, 2012

Total Governmental Funds Balance \$ 20,326,809

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

Capital Assets used in Governmental Activities are not financial resources and,
therefore, are not reported in the funds 78,527,464

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

Property taxes	\$ 9,059,110	
Intergovernmental	<u>1,272,179</u>	
Total		10,331,289

Internal Service funds are used by management to charge the costs
of certain activities, such as insurance to individual funds. The assets
and liabilities of the Internal Service funds are included in Governmental
Activities in the Statement of Net Assets. 7,371,874

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	(41,461,928)	
Tax anticipation notes payable	(6,435,000)	
Bond accretion	(193,503)	
Unamortized bond premium	(363,823)	
Deferred charges related to debt issuance	219,418	
Compensated absences	(2,580,822)	
Accrued interest payable	<u>(570,716)</u>	
Total		<u>(51,386,374)</u>

Net Assets of Governmental Activities **\$ 65,171,062**

See accompanying notes to the basic financial statements.

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

For the Fiscal Year Ended June 30, 2012

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 37,209,197	\$ 3,474,975	\$ -	\$ 756,140	\$ 41,440,312
Intergovernmental	29,600,887	913,091	19,188,599	5,159,716	54,862,293
Interest	16,391	-	27,247	3,230	46,868
Tuition	53,523	-	-	-	53,523
Extracurricular Activities	112,297	-	-	166,909	279,206
Charges for Services	152,707	-	-	-	152,707
Transportation Fees	48,858	-	-	11,541	60,399
Classroom Materials and Fees	71,129	-	-	14	71,143
Miscellaneous	26,750	-	150	29,908	56,808
Total Revenues	<u>67,291,739</u>	<u>4,388,066</u>	<u>19,215,996</u>	<u>6,127,458</u>	<u>97,023,259</u>
EXPENDITURES					
Current:					
Instruction:					
Regular Instruction	25,336,661	-	-	989,995	26,326,656
Special Instruction	13,493,642	-	-	2,393,887	15,887,529
Vocational Instruction	1,306,183	-	-	-	1,306,183
Adult/Continuing Instruction	-	-	-	152,783	152,783
Other Instruction	21,130	-	-	-	21,130
Supporting Services:					
Pupils	4,325,453	-	-	261,327	4,586,780
Instructional Staff	3,844,093	-	-	1,577,012	5,421,105
Board of Education	206,835	-	-	-	206,835
Administration	4,944,090	-	-	35,982	4,980,072
Fiscal Services	1,902,126	828	-	1,078	1,904,032
Business	582,858	-	-	32,563	615,421
Operation and Maintenance of Plant Services	7,030,549	-	-	184,819	7,215,368
Pupil Transportation	4,548,990	-	-	151,263	4,700,253
Central	1,383,543	-	-	93,836	1,477,379
Operation of Non-Instructional Services:					
Community Services	-	-	-	828,156	828,156
Extracurricular Activities	866,561	-	-	241,342	1,107,903
Capital Outlay	-	-	47,302,407	2,063,026	49,365,433
Debt Service:					
Principal Retirement	-	3,162,454	-	-	3,162,454
Interest and Fiscal Charges	-	2,511,336	-	-	2,511,336
Bond Issuance Costs	-	25,342	-	-	25,342
Total Expenditures	<u>69,792,714</u>	<u>5,699,960</u>	<u>47,302,407</u>	<u>9,007,069</u>	<u>131,802,150</u>
Excess of Revenues Over Expenditures	<u>(2,500,975)</u>	<u>(1,311,894)</u>	<u>(28,086,411)</u>	<u>(2,879,611)</u>	<u>(34,778,891)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	10,910	-	-	-	10,910
Tax Anticipation Bonds Issued	-	185,000	1,400,000	2,600,000	4,185,000
Transfers In	-	367,146	-	54,543	421,689
Transfers Out	(421,689)	-	-	-	(421,689)
Total Other Financing Sources (Uses)	<u>(410,779)</u>	<u>552,146</u>	<u>1,400,000</u>	<u>2,654,543</u>	<u>4,195,910</u>
Net Change in Fund Balances	<u>(2,911,754)</u>	<u>(759,748)</u>	<u>(26,686,411)</u>	<u>(225,068)</u>	<u>(30,582,981)</u>
Fund Balances - Beginning of Year, Restated	4,112,889	5,488,270	34,292,515	7,016,116	50,909,790
Fund Balances - End of Year	<u>\$ 1,201,135</u>	<u>\$ 4,728,522</u>	<u>\$ 7,606,104</u>	<u>\$ 6,791,048</u>	<u>\$ 20,326,809</u>

See accompanying notes to the basic financial statements.

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

For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances-Total Governmental Funds \$ (30,582,981)

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

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

Capital Outlay	\$ 49,665,316	
Depreciation	<u>(1,447,882)</u>	
Total		48,217,434

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets. (4,796)

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

Taxes	396,531	
Intergovernmental	<u>(18,728,092)</u>	
Total		(18,331,561)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of tax anticipation bonds. (4,185,000)

Repayment of bond principal is an expenditure in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,162,454

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

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the Statement of Activities. (92,209)

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (3,907)

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	76,223	
Retirement payout liability	492,010	
Bond accretion	<u>416,520</u>	
Total		984,753

Internal Service funds are used by management to charge costs to certain activities, such as insurance to individual funds. The net revenue (expense) of Internal Service funds are reported in the Governmental Activities. 1,629,494

Change in Net Assets of Governmental Activities \$ 964,400

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (Non-GAAP Basis) –
General Fund
For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Taxes	\$ 35,465,176	\$ 34,517,742	\$ 38,090,390	\$ 3,572,648
Intergovernmental	34,985,140	34,985,140	29,298,911	(5,686,229)
Interest	18,357	18,357	15,373	(2,984)
Tuition	82,106	82,106	68,761	(13,345)
Extracurricular Activities	42,559	42,559	35,642	(6,917)
Charges for Services	50,157	50,157	42,005	(8,152)
Transportation Fees	37,753	37,753	31,617	(6,136)
Classroom Materials and Fees	65,539	65,539	54,887	(10,652)
Miscellaneous	13,389	13,389	11,213	(2,176)
Total Revenues	<u>70,760,176</u>	<u>69,812,742</u>	<u>67,648,799</u>	<u>(2,163,943)</u>
Expenditures				
Current:				
Instruction				
Regular	26,118,849	25,608,695	25,117,813	490,882
Special	14,449,783	13,922,575	13,749,204	173,371
Vocational	1,368,094	1,367,029	1,344,538	22,491
Other	61,704	61,704	34,783	26,921
Supporting Services				
Pupils	4,190,620	4,389,742	4,297,441	92,301
Instructional Staff	3,704,239	3,982,498	3,963,053	19,445
Board of Education	153,909	220,459	208,529	11,930
Administration	4,938,493	5,012,531	5,010,009	2,522
Fiscal Services	2,111,306	2,092,056	1,971,288	120,768
Business	654,311	665,006	597,020	67,986
Operation and Maintenance of Plant Services	7,715,683	7,726,561	7,127,417	599,144
Pupil Transportation	4,261,238	4,547,430	4,663,730	(116,300)
Central	1,807,210	1,610,037	1,359,718	250,319
Operation of Non-Instructional Services	30,318	30,318	17,117	13,201
Extracurricular Activities	760,781	780,841	741,699	39,142
Total Expenditures	<u>72,326,538</u>	<u>72,017,482</u>	<u>70,203,359</u>	<u>1,814,123</u>
Excess of Revenues Over Expenditures	<u>(1,566,362)</u>	<u>(2,204,740)</u>	<u>(2,554,560)</u>	<u>(349,820)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	5,000	5,000	10,910	5,910
Refund of Prior Year Expenditures	200,000	200,000	259,829	59,829
Refund of Prior Year Receipts	(1,200)	(193,691)	(193,544)	147
Advances In	-	-	3,156	3,156
Advances Out	-	(418,414)	(418,414)	-
Transfers Out	(377,146)	(367,146)	(367,146)	-
Contingencies	(200,000)	(103,149)	-	103,149
Total Other Financings Sources (Uses)	<u>(373,346)</u>	<u>(877,400)</u>	<u>(705,209)</u>	<u>172,191</u>
Net Change in Fund Balance	(1,939,708)	(3,082,140)	(3,259,769)	(177,629)
Fund Balance - Beginning of Year	4,335,573	4,335,573	4,335,573	-
Prior Year Encumbrances Appropriated	789,582	789,582	789,582	-
Fund Balance - End of Year	<u>\$ 3,185,447</u>	<u>\$ 2,043,015</u>	<u>\$ 1,865,386</u>	<u>\$ (177,629)</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Assets
Proprietary Funds**

June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 429,804	\$ 8,151,677
Investments	-	1,005,219
Materials and Supplies Inventory	29,724	-
Intergovernmental Receivable	334,440	-
Total Current Assets	<u>793,968</u>	<u>9,156,896</u>
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets, Net of Depreciation	42,001	-
Total Assets	<u>835,969</u>	<u>9,156,896</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	66,751	8,189
Accrued Wages and Benefits	30,849	865
Compensated Absences Payable	8,810	-
Intergovernmental Payable	104,831	273,521
Interfund Payable	10,000	-
Workers' Compensation Claims Payable	-	180,584
Insurance Claims Payable	-	957,100
Total Current Liabilities	<u>221,241</u>	<u>1,420,259</u>
Noncurrent Liabilities:		
Compensated Absences Payable	36,872	-
Workers' Compensation Claims Payable	-	364,763
Total Noncurrent Liabilities	<u>36,872</u>	<u>364,763</u>
Total Liabilities	<u>258,113</u>	<u>1,785,022</u>
NET ASSETS		
Invested in Capital Assets	42,001	-
Unrestricted	535,855	7,371,874
Total Net Assets	<u>\$ 577,856</u>	<u>\$ 7,371,874</u>

See accompany notes to the basic financial statements.

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

For the Fiscal Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Food Services	\$ 391,017	\$ -
Charges for Services	13,365	10,168,123
Miscellaneous	9,620	17,532
Extracurricular Activities	-	46,323
Classroom Materials and Fees	-	81,130
Tuition	585,169	12,000
Transportation Fees	25	5,386
Total Operating Revenues	999,196	10,330,494
OPERATING EXPENSES		
Salaries	1,189,335	55,868
Fringe Benefits	516,127	8,311,511
Purchased Services	40,540	205,999
Materials and Supplies	1,220,633	21,690
Depreciation	33,000	8,596
Other	4,791	108,720
Total Operating Expenses	3,004,426	8,712,384
Operating Income (Loss)	(2,005,230)	1,618,110
NON-OPERATING REVENUES		
Interest	35	11,384
Intergovernmental	1,865,518	-
Donated Commodities	201,110	-
Total Non-operating Revenues	2,066,663	11,384
Change in Net Assets	61,433	1,629,494
Net Assets - Beginning of Year	516,423	5,742,380
Net Assets - End of Year	\$ 577,856	\$ 7,371,874

See accompany notes to the basic financial statements.

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 992,336	\$ 10,330,494
Other Cash Receipts	6,860	-
Cash Payments to Employees for Services	(1,239,126)	(62,426)
Cash Payments for Employee Benefits	(532,447)	(8,493,891)
Cash Payments for Goods and Services	(991,269)	(222,183)
Cash Payments for Other Operating Expenses	(4,791)	(108,720)
Net Cash Provided by (Used in) Operating Activities	<u>(1,768,437)</u>	<u>1,443,274</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	1,531,078	-
Advances In	10,000	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,541,078</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	-	(5,219)
Interest on Investments	35	20,536
Net Cash Provided by (Used in) Investing Activities	<u>35</u>	<u>15,317</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(227,324)	1,458,591
Cash and Cash Equivalents - Beginning of Year	657,128	6,693,086
Cash and Cash Equivalents - End of Year	<u>\$ 429,804</u>	<u>\$ 8,151,677</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (2,005,230)	\$ 1,618,110
Adjustments:		
Depreciation	33,000	8,596
Federal Donated Commodities	201,110	-
(Increase) Decrease in Assets:		
Materials and Supplies Inventory	2,789	-
Prepaid Items	248	-
Increase (Decrease) in Liabilities:		
Accounts Payable	65,477	5,506
Accrued Wages and Benefits	696	(6,558)
Compensated Absences Payable	(47,660)	-
Retainage Payable	(2,827)	-
Intergovernmental Payable	(16,040)	(129,397)
Claims Payable	-	(52,983)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,768,437)</u>	<u>\$ 1,443,274</u>

Schedule of Noncash Non-Capital Financing Activities

During the year, the Food Service enterprise fund received donated commodities of \$201,110.

See accompanying notes to the basic financial statements.

**Statement of Assets and Liabilities
Fiduciary Funds**

June 30, 2012

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 35,700
Liabilities	
Due to Students	\$ 35,700

See accompanying notes to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**Notes to the Basic Financial Statements
June 30, 2012**

NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Euclid City School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provisions of public education to residents of the District.

Average daily membership as of June 30, 2012 was 5,607. The District employed 990 certified and non-certified employees.

Reporting Entity

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

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with two organizations which are defined as a jointly governed organization and a related organization. The Ohio School’s Council Association is a jointly governed organization and the Euclid Public Library is a related organization. The jointly governed organization is presented in Note 17 and the related organization is presented in Note 18 to the basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. **Fund Accounting**

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

Governmental Funds

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

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

Bond Retirement Fund – This fund is provided to account for the accumulation of resources received from property tax levies, which have been levied for debt charges on bonds, notes, or other loans.

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

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

Proprietary Funds

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Fund Accounting (Continued)

Fiduciary Funds

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

B. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. An exception to this general rule is that interfund services provided and used are not eliminated in the process of consolidation. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

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

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

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

C. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

C. Basis of Accounting (Continued)

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

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

Property taxes and compensation payments from a tax increment financing (TIF) agreement for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

D. Cash and Cash Equivalents

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

During the fiscal year 2012, investments were limited to U.S. agency securities, nonnegotiable certificates of deposit and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$16,391, which includes \$11,071 assigned from the other District funds.

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

D. Cash and Cash Equivalents (Continued)

For presentation on the financial statement, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by legal requirements. See Note 21 for additional information regarding set-asides. As of June 30, 2012, the District did not have any restricted assets.

F. Prepaid Items

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

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

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

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

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

H. Capital Assets (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	20 years	N/A
Buildings and Improvements	10-50 years	N/A
Furniture and Equipment	5-10 years	3-10 years
Vehicles	10 years	N/A

I. Interfund Balances

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

J. Compensated Absences

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

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

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

K. Bond Premiums

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

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

L. **Bond Issuance Costs**

Bond issuance costs for underwriting fees related to the District's debt are being amortized using the straight-line method over the life of the agreement on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On fund financial statements, bond issuance costs are disbursed in the year the bonds are issued.

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

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

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

N. **Fund Balance**

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

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

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

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

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

N. **Fund Balance**

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

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

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

O. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District passed legislation to create a restriction to net assets for budget stabilization. This is the only net assets restriction imposed through enabling legislation. The net assets restricted for state and federally fund programs and student activities have external and internal restrictions imposed by state and federal governments along with the District’s Board of Education.

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

P. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as non-operating.

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

Q. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

S. Estimates

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

T. Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

Tax Budget

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Accounting (Continued)

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District's Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final amended certificates of estimated resources issued during fiscal year 2012.

Appropriations

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

Any revisions that alter the total of any fund appropriation or alter total function or object level appropriations within the general fund or fund level for all other funds must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the governmental fund financial statements, encumbrances outstanding at year end are reported as part of the respective fund balance classification for subsequent year expenditures. Encumbrances outstanding at year end are not reported on government-wide financial statements.

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

T. **Budgetary Accounting (Continued)**

Lapsing of Appropriations

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

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

Accountability

The following funds had negative fund balances at June 30, 2012:

	Deficit
<i><u>Nonmajor Special Revenue Funds</u></i>	
Management Information System	\$ 3,472
Public School Preschool	29,378
Vocational Education Enhancement	4,310
Alternative Schools	13,939
Adult Basic Education	48,055
Education Jobs	93,026
Race to the Top	62,815
Title I	250,170
IDEA Preschool Grant for the Handicapped	435
Reducing Class Size	73,366
 <i><u>Nonmajor Capital Projects Fund</u></i>	
Vocational Education Equipment	91
 <i><u>Nonmajor Enterprise Fund</u></i>	
Customer Services	66,850

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

NOTE 4: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2012, the District implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*.

GASB Statement No. 64 enhances the comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this Statement did not have an effect on the District's financial statements.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$ (2,911,754)
Net Adjustment for Revenue Accruals	850,336
Net Adjustment for Expenditure Accruals	(43,749)
Funds with Separate Legally Adopted Budgets	(41,735)
Adjustment for Encumbrances	(1,112,867)
Budget Basis	\$ (3,259,769)

NOTE 6: FUND BALANCE

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

<u>Fund Balances</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Nonspendable</i>					
Prepaid Items	\$ 11,238	\$ -	\$ -	\$ 165,734	\$ 176,972
Inventories	205,250	-	-	-	205,250
<i>Total Nonspendable</i>	<u>216,488</u>	<u>-</u>	<u>-</u>	<u>165,734</u>	<u>382,222</u>
<i>Restricted for</i>					
Classroom Facilities Maintenance	-	-	-	479,898	479,898
Athletics	-	-	-	51,048	51,048
Auxiliary Services	-	-	-	118,779	118,779
Special Education	-	-	-	108,612	108,612
Technology Improvements	-	-	-	1,200	1,200
School Improvements	-	-	-	41,889	41,889
Debt Service	-	4,728,522	-	-	4,728,522
Capital Improvements	-	-	-	3,187,891	3,187,891
Buildings	-	-	-	3,052,259	3,052,259
Classroom Facilities Project	-	-	7,606,104	-	7,606,104
<i>Total Restricted</i>	<u>-</u>	<u>4,728,522</u>	<u>7,606,104</u>	<u>7,041,576</u>	<u>19,376,202</u>
<i>Committed to</i>					
Termination Benefits	247,764	-	-	-	247,764
Special Programs	-	-	-	18,848	18,848
<i>Total Committed</i>	<u>247,764</u>	<u>-</u>	<u>-</u>	<u>18,848</u>	<u>266,612</u>
<i>Assigned to</i>					
Property Replacement	-	-	-	143,947	143,947
Other Purposes	48,109	-	-	-	48,109
<i>Total Assigned</i>	<u>48,109</u>	<u>-</u>	<u>-</u>	<u>143,947</u>	<u>192,056</u>
<i>Unassigned (Deficit)</i>					
	688,774	-	-	(579,057)	109,717
Total Fund Balances	<u><u>\$ 1,201,135</u></u>	<u><u>\$ 4,728,522</u></u>	<u><u>\$ 7,606,104</u></u>	<u><u>\$ 6,791,048</u></u>	<u><u>\$ 20,326,809</u></u>

NOTE 7: DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds or other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or division (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Bankers' acceptances and commercial paper, if training requirements have been met.

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

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

NOTE 7: DEPOSITS AND INVESTMENTS (CONTINUED)

Cash on Hand

At June 30, 2012, the District had \$2,180 in undeposited cash on hand, which is included on the balance sheet of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

Deposits

At June 30, 2012, the carrying amount of the District’s deposits was \$20,986,655, (including \$1,910,169 in nonnegotiable certificates of deposit), and the bank balance was \$28,123,546. \$4,752,443 of the District’s bank balance was covered by Federal Depository Insurance and \$23,371,103 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name. Although the securities were held by the pledging institution’s trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

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

Investments

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

Investments at year end were as follows:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	<u>Credit Rating (*)</u>	<u>Fair Value</u>
STAR Ohio	< 1	AAAm	\$ 3,115,007
FHLB	< 1	AA+	10,635,017
Total Investments			<u>\$ 13,750,024</u>

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

NOTE 7: DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments in Federal Home Loan Bank securities are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has invested 77.3 percent in FHLB securities and 22.7 percent in STAR Ohio.

NOTE 8: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and certain tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are paid annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 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.

NOTE 8: PROPERTY TAXES (CONTINUED)

Tangible personal property tax revenue received in the District’s fiscal year ended June 30, 2012 (other than public utility property) generally represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2010 was the last year for the collection of tangible personal property taxes from telephone companies.

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012 was \$4,572,904 in the general fund, \$409,882 in the bond retirement fund, and \$245,146 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011 was \$5,466,116 in the general fund, \$657,372 in the bond retirement fund, and \$293,182 in the permanent improvement capital projects fund.

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

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

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 731,293,280	97.93%	\$ 722,667,290	97.83%
Public Utility	15,476,470	2.07%	16,043,950	2.17%
Totals	\$ 746,769,750	100.00%	\$ 738,711,240	100.00%
 Tax Rate per \$1,000 of Assessed Valuation	\$ 89.90		\$ 88.40	

NOTE 9: SCHOOL DISTRICT INCOME TAXES

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

NOTE 10: RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, compensation payments from a TIF agreement, accounts (rent, billings for user charged services, and student fees), intergovernmental grants and interest. All receivables, except for the \$811,672 of intergovernmental grants due from the Ohio Schools Facilities Commission (OSFC), are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. The OSFC grant will be collected over the life of the construction project.

A summary of the principal items of intergovernmental receivables follows:

	Governmental Activities	Business-Type Activities	Total
Classroom Facilities	\$ 811,672	\$ -	\$ 811,672
Alternative Education Challenge	15,975	-	15,975
Adult Basic Education	31,141	-	31,141
Education Jobs	246,518	-	246,518
Race to the Top	65,986	-	65,986
Stimulus Title II - Technology Grants	310	-	310
Title I	114,899	-	114,899
IDEA Preschool Grant for the Handicapped	1,240	-	1,240
Reducing Class Size	197	-	197
Food Service	-	334,440	334,440
TIF	60,000	-	60,000
Other	56,477	-	56,477
Total Intergovernmental Receivables	<u>\$ 1,404,415</u>	<u>\$ 334,440</u>	<u>\$ 1,738,855</u>

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NOTE 11: CAPITAL ASSETS

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

	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789
Construction in Progress	6,572,497	49,359,388	-	55,931,885
Total Capital Assets, not being depreciated:	8,625,286	49,359,388	-	57,984,674
<i>Capital Assets, being depreciated:</i>				
Land Improvements	3,605,518	46,056	-	3,651,574
Building and Improvements	54,367,878	108,872	-	54,476,750
Furniture and Equipment	1,788,055	-	(23,847)	1,764,208
Vehicles	4,499,250	151,000	(98,688)	4,551,562
Total Capital Assets, being depreciated	64,260,701	305,928	(122,535)	64,444,094
Less Accumulated Depreciation:				
Land Improvements	(2,612,961)	(74,999)	-	(2,687,960)
Building and Improvements	(34,454,481)	(727,297)	-	(35,181,778)
Furniture and Equipment	(1,560,669)	(222,590)	19,051	(1,764,208)
Vehicles	(3,934,454)	(431,592)	98,688	(4,267,358)
Total Accumulated Depreciation	(42,562,565)	(1,456,478)	117,739	(43,901,304)
Total Capital Assets being depreciated, Net	21,698,136	(1,150,550)	(4,796)	20,542,790
Governmental Activities' Capital Assets, Net	\$ 30,323,422	\$ 48,208,838	\$ (4,796)	\$ 78,527,464
<u>Business-Type Activities</u>				
<i>Capital Assets, being depreciated:</i>				
Building and Improvements	\$ 12,000	\$ -	\$ -	\$ 12,000
Furniture and Equipment	209,345	-	-	209,345
Vehicles	51,437	-	-	51,437
Total Capital Assets, being depreciated	272,782	-	-	272,782
Less Accumulated Depreciation:				
Building and Improvements	(1,050)	(300)	-	(1,350)
Furniture and Equipment	(167,797)	(26,270)	-	(194,067)
Vehicles	(28,934)	(6,430)	-	(35,364)
Total Accumulated Depreciation	(197,781)	(33,000)	-	(230,781)
Business-Type Activities' Capital Assets, Net	\$ 75,001	\$ (33,000)	\$ -	\$ 42,001

NOTE 11: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Instruction:		
Regular	\$	655,321
Support Services:		
Administration		48,320
Business		4,164
Operation and Maintenance of Plant		143,836
Pupil Transportation		368,196
Central		236,641
Total Depreciation Expense	\$	1,456,478

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2012 were as follows:

	Balance Outstanding 6/30/2011	Additions	Deletions	Balance Outstanding 6/30/2012	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>General Obligation Bonds</i>					
<i>Energy Conservation Bonds</i>					
Series 2002 - \$2,715,000 - 2.50% to 6.00%	\$ 1,270,000	\$ -	\$ (190,000)	\$ 1,080,000	\$ 195,000
Series 2009 - \$1,253,000 - 5.25%	1,134,600	-	(62,500)	1,072,100	65,900
<i>School and Library Refunding, Series 2006 -</i>					
Serial Bonds - \$6,300,000 - 3.375 % to 5.00%	1,150,000	-	-	1,150,000	345,000
Capital Appreciation Bonds - \$1,129,954 - 7.464%	1,129,954	-	(1,129,954)	-	-
Bond Accretion	528,160	61,886	(590,046)	-	-
<i>Classroom Facilities and School</i>					
<i>Improvement Bonds, Series 2010</i>					
Serial Bonds - \$3,235,000 - 1.75 % to 2.00%	2,175,000	-	(1,080,000)	1,095,000	1,095,000
Capital Appreciation Bonds - \$499,828 - 18.35%	499,828	-	-	499,828	-
Bond Accretion	81,863	111,640	-	193,503	-
Unamortized Bond Premium	311,627	-	(116,861)	194,766	-
Term Bonds - \$11,210,000 - 6.15%	11,210,000	-	-	11,210,000	-
Term Bonds - \$10,190,000 - 6.30%	10,190,000	-	-	10,190,000	-
Sinking Fund Bonds - \$15,165,000 - 1.85%	15,165,000	-	-	15,165,000	-
Total General Obligation Bonds	44,846,032	173,526	(3,169,361)	41,850,197	1,700,900
<i>Other Long-Term Obligations</i>					
Permanent Improvement Tax Anticipation - \$6,500,000 - 4.25%	2,950,000	-	(700,000)	2,250,000	725,000
Permanent Improvement Tax Anticipation - \$4,185,000 - 3.15%	-	4,185,000	-	4,185,000	-
Unamortized Bond Premium	222,915	-	(53,858)	169,057	-
Retirement Payout Liability	492,010	-	(492,010)	-	-
Claims and Judgments	1,555,430	7,044,326	(7,097,309)	1,502,447	1,137,684
Compensated Absences	2,657,045	1,171,630	(1,247,853)	2,580,822	541,351
Total Other Long-Term Obligations	7,877,400	12,400,956	(9,591,030)	10,687,326	2,404,035
Total Governmental Activities					
Long-Term Liabilities	\$ 52,723,432	\$ 12,574,482	\$ (12,760,391)	\$ 52,537,523	\$ 4,104,935
<u>Business-Type Activities</u>					
Compensated Absences	\$ 93,342	\$ -	\$ (47,660)	\$ 45,682	\$ 8,810

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds

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

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

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

On March 4, 2010, the District issued \$40,299,828 in voted general obligation bonds which comprised of serial, capital appreciation (deep discount), term, and sinking fund bonds in the amount of \$3,235,000, \$499,828, \$21,400,000 and \$15,165,000, respectively. The general obligation bonds were issued for the purpose of building new schools within the Euclid City Schools system. The bonds were issued with a twenty-eight year period with final maturity at January 15, 2038. The bond retirement fund will fund the annual debt service requirements on these bonds. The serial, capital appreciation, term, and sinking fund bonds remained outstanding at June 30, 2012.

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

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

The maturity amount of the capital appreciation bonds issued on March 4, 2010 is \$985,000. These bonds were originally sold at a discount of \$485,172, which is being accrued annually until the point of maturity of the bonds, which is January 15, 2014. For fiscal year 2012, \$193,503 was accreted for a total bond value of \$693,331.

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

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

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

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

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

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

Tax Anticipation Notes

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

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

In 2012, the District issued \$4,185,000 in long-term payable notes to provide for the renovation of the school buildings and other District improvements. These notes will be paid off over a ten year period of time with property taxes collected in the bond retirement fund.

Other Obligations

Compensated absences will be paid from the general fund and food service enterprise fund. See Note 16 for further details on the District's liability for claims and judgments.

The District's voted legal debt margin was \$31,902,706 with an unvoted debt margin of \$738,711 at June 30, 2012.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Permanent Improvement Tax Anticipation Note		General Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest *	Principal	Interest
2013	\$ 725,000	\$ 233,502	1,700,900	1,782,080	\$ 2,425,900	\$ 2,015,582
2014	1,110,000	171,783	1,259,228	2,217,595	2,369,228	2,389,378
2015	1,150,000	130,081	1,788,200	1,699,679	2,938,200	1,829,760
2016	385,000	102,611	1,512,100	1,674,056	1,897,100	1,776,667
2017	400,000	90,248	1,486,200	1,657,098	1,886,200	1,747,346
2018-2022	2,185,000	251,921	6,676,700	8,184,889	8,861,700	8,436,810
2023-2027	480,000	7,560	7,053,600	7,791,290	7,533,600	7,798,850
2028-2032	-	-	7,995,000	5,277,480	7,995,000	5,277,480
2033-2037	-	-	9,780,000	2,592,270	9,780,000	2,592,270
2038	-	-	2,210,000	139,230	2,210,000	139,230
Totals	\$ 6,435,000	\$ 987,706	\$ 41,461,928	\$ 33,015,667	\$ 47,896,928	\$ 34,003,373

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

NOTE 13: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

NOTE 13: **OTHER EMPLOYEE BENEFITS (CONTINUED)**

A. **Compensated Absences (Continued)**

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

NOTE 14: **PENSION PLANS**

A. **State Teachers Retirement System**

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

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

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

NOTE 14: **PENSION PLANS (CONTINUED)**

DC Plan Benefits - Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.50 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the members' account balance.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1.00 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to members on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

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

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

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

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year ended June 30, 2011 (the latest information available), members were required to contribute 10.00 percent of their annual covered salary and the District was required to contribute 14.00 percent. Member and employer contribution rates were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10.00 percent for members and 14.00 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14.00 percent contributed by the District, 13.00 percent was the portion used to fund pension obligations.

NOTE 14: **PENSION PLANS (CONTINUED)**

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,271,755, \$4,684,882, and \$4,747,383, respectively; 81.93 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Member and employer contributions actually made for the Defined Contribution and Combined Plan participants will be provided upon written request.

B. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under *Employer/Audit Resources*.

Funding Policy - Plan members are required to contribute 10.00 percent of their annual covered salary and the District is required to contribute 14.00 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14.00 percent employer contribution rate is allocated to the Health Care and Medicare B funds. The District's pension and death benefits contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$1,770,360, \$1,525,494, and \$1,681,161, respectively; 63.37 percent has been contributed for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010.

NOTE 15: **POST-EMPLOYMENT BENEFITS**

A. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combine Plan that is a hybrid of the Defined Plan and the Defined Contribution Plan.

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

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

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

NOTE 15: POST-EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 1.00 percent of covered payroll was allocated to post-employment health care for years ended June 30, 2011, 2010 and 2009 (the latest information available). The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to post-employment health care were \$328,597, \$360,376, and \$365,183, respectively; 81.93 percent has been contributed for 2012 and 100 percent for fiscal years 2011 and 2010.

B. School Employees Retirement System

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 13, SERS administers two postemployment benefit plans.

Medicare Part B Plan - The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation is 0.75 percent. For the fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to the Medicare Part B Plan were \$104,549, \$98,169, and \$99,975, respectively; 63.37 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plan from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

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

NOTE 15: POST-EMPLOYMENT BENEFITS (CONTINUED)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code § 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14.00 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is 0.55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.00 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.50 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14.00 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District’s contributions assigned to health care for the years ended June 30, 2012, 2011 and 2010 were \$248,837, \$369,910, and \$259,566, respectively; 63.37 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

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

NOTE 16: RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the District contracted with Hyland Administrative Services – Ohio School Plan for fleet and liability insurance, with Travelers Insurance for boiler and machinery, and with Hyland Administrative Services – Ohio School Plan for property and inland marine coverage. Coverages provided were as follows:

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

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

NOTE 16: **RISK MANAGEMENT (CONTINUED)**

B. Self-Insurance Program

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

The claims liability of \$957,100 reported in the fund at June 30, 2012 was estimated by the third party administrator and is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses (GASB Statement No. 30). Changes in the fund's claims liability amount for the fiscal years ended June 30, 2011 and 2012 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>End of Year</u>
June 30, 2011	\$ 1,223,600	\$ 7,432,199	\$ (7,559,199)	\$ 1,096,600
June 30, 2012	1,096,600	6,292,367	(6,431,867)	957,100

The above claim payments include management fees in the amount of \$567,001.

C. Workers' Compensation Program

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

The claims liability of \$545,347 reported in the fund at June 30, 2012 was estimated by the Bureau of Workers Compensation and is based on the requirement of Governmental Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the fund's current claims liability amount for the fiscal years ended June 30, 2011 and 2012 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Interest Earned</u>	<u>End of Year</u>
June 30, 2011	\$ 466,894	\$ 544,245	\$ (558,356)	\$ 6,047	\$ 458,830
June 30, 2012	458,830	746,308	(665,442)	5,651	545,347

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS

Ohio Schools' Council Association (Council) – The Council is a jointly governed organization among 179 school districts, educational service centers, joint vocational districts, and Developmental Disabilities boards in 35 northern Ohio counties. The jointly governed organization was created by various entities for the purpose of saving money through volume purchases. Each entity supports the Council by paying an annual participation fee. Each district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2012, the District paid \$4,365 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's prepaid natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 148 districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The District also participates in the Council's electric purchase program (Power4Schools program). In June, 2011, the Council partnered with the Ohio School Boards Association (OSBA), the Ohio Association of School Business Officials (OASBO), and the Buckeye Association of School Administrators (BASA) to negotiate with First Energy Solutions for electric generation savings. The rate is \$0.0528 per kWh for all district facilities (including non-classroom facilities) and is guaranteed for the first three years of the program. Similar savings, depending on market conditions, will continue for the remaining five and a half years of the program. There are two hundred fifty-one (251) districts participating in this program.

NOTE 18: RELATED ORGANIZATION

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

NOTE 19: **CONTINGENCIES**

A. **Grants**

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

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. **Litigation**

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

NOTE 20: **INTERFUND TRANSACTIONS**

A. **Interfund Balances**

On June 30, 2012, interfund balances on fund financial statements consist of the following:

	Receivable	Payable
<i><u>Major Governmental Fund</u></i>		
General Fund	\$ 708,734	\$ -
 <i><u>Nonmajor Governmental Funds</u></i>		
Special Revenue Funds	-	448,643
Capital Projects Funds	-	250,091
 <i><u>Nonmajor Proprietary Fund</u></i>		
Enterprise Fund	-	10,000
Total Interfund Balances	\$ 708,734	\$ 708,734

Monies were advanced from the general fund to various nonmajor governmental and proprietary funds to cover operating expenses until additional monies are received. In addition, the general fund provided \$24,323 in interfund loans to cover negative cash balances in specific funds where revenues were requested, but were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. The District met the exception requirements of Ohio Revised Code Section 3315.20, allowing a negative cash balance in these funds.

NOTE 20: **INTERFUND TRANSACTIONS (CONTINUED)**

B. Interfund Transfers

On June 30, 2012, interfund transfers on fund financial statements consist of the following:

	Transfers In	Transfers Out
<i><u>Major Funds</u></i>		
General	\$ -	\$ 421,689
Bond Retirement	367,146	-
 <i><u>Nonmajor Governmental Fund</u></i>		
Special Revenue Fund	54,543	-
Total Interfund Transfers	\$ 421,689	\$ 421,689

Transfers were made to provide additional resources for current operations. The interfund transfers were eliminated since they were within the governmental activities.

NOTE 21: **SET-ASIDE REQUIREMENTS**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2012, only the unspent portion of certain workers' compensation refunds continues to be a required set-aside. As a result of the implementation of GASB Statement No. 54, the District's budget stabilization amount has been classified as unassigned fund balance. This fund balance classification is necessary since the District does not provide specific circumstances and these circumstances could occur routinely.

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

	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2011	\$ -	\$ 1,276,135
Current Year Set-Aside Requirements	938,531	-
Qualifying Disbursements	(49,312,669)	-
Totals	(48,374,138)	1,276,135
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ -	\$ 1,276,135
Set-Aside Reserve Balance as of June 30, 2012	\$ -	\$ 1,276,135

Although the District had qualifying disbursements during the year that reduced the capital improvements set-aside amount below zero, these extra amounts may not be used to reduce the set-aside requirement in future fiscal years.

NOTE 22: OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of June 30, 2012, the District's commitments for encumbrances in the governmental funds were as follows:

	Encumbrances Outstanding
General	\$ 858,262
Classroom Facilities	942,936
Nonmajor Governmental	3,450,885
Total	\$ 5,252,083

NOTE 23: PRIOR PERIOD ADJUSTMENT

A prior period transaction was recorded as an interfund advance but should have been recorded as an interfund transfer. The adjustment had the following impact on prior period's fund balances:

	Bond Retirement	Other Governmental Funds
Fund Balances, June 30, 2011	\$ 5,365,767	\$ 7,138,619
Adjustment:		
Impact of change from Advance to Transfer	122,503	(122,503)
Restated Fund Balances, June 30, 2011	\$ 5,488,270	\$ 7,016,116

NOTE 24: SUBSEQUENT EVENTS

In July 2012, the District entered into a lease-purchase agreement with Apple, Inc. for the acquisition of computer hardware and software for instructional purposes.

On November 6, 2012, the voters of Euclid approved a ten-year \$5.4 million operating levy. Collections of this new levy will begin in January 2013. It is believed this additional funding source will allow the District to operate for three years before added funding would be needed.

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

Board of Education
Euclid City School District
Euclid, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Euclid City School District, Cuyahoga County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the Euclid City School District, Ohio's basic financial statements and have issued our report thereon dated January 15, 2013, wherein we noted that the District restated the June 30, 2011 governmental fund balances due to a transaction being recorded as an interfund advance instead of an interfund transfer. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2012-001**, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Euclid City School District, Ohio, in a separate letter dated January 15, 2013.

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

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


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

January 15, 2013

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

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

Board of Education
Euclid City School District
Euclid, Ohio

Compliance

We have audited the Euclid City School District, Cuyahoga County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Euclid City School District, Ohio's major federal programs for the year ended June 30, 2012. The Euclid City School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Euclid City School District, Ohio's management. Our responsibility is to express an opinion on the Euclid City School District, Ohio's compliance based on our audit.

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

In our opinion, the Euclid City School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2012-002**.

Internal Control Over Compliance

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


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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2012-002**. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Euclid City School District, Ohio's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Euclid City School District, Ohio's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the management of the Euclid City School District, Ohio, in a separate letter dated January 15, 2013.

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


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

January 15, 2013

EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
Child Care - Summer School Meals	10.559	\$ 56,309	\$ 0	\$ 56,309	\$ 0
National School Breakfast Program	10.553	280,300	0	280,300	0
National School Lunch Program	10.555	1,148,354	201,110	1,148,354	201,110
Special Milk Program	10.556	1,386	0	1,386	0
Total Child Nutrition Cluster		<u>1,486,349</u>	<u>201,110</u>	<u>1,486,349</u>	<u>201,110</u>
Total U.S. Department of Agriculture		<u>1,486,349</u>	<u>201,110</u>	<u>1,486,349</u>	<u>201,110</u>
U.S. Department of Education					
<i>Passed through Ohio Department of Education</i>					
Special Education Cluster:					
Special Education Grants	84.027	1,184,950	0	1,199,991	0
ARRA - Special Education Grants	84.391	0	0	88,564	0
<i>Subtotal Special Education Grants</i>		<u>1,184,950</u>	<u>0</u>	<u>1,288,555</u>	<u>0</u>
Preschool Grant	84.173	20,455	0	31,758	0
ARRA - Preschool Grant	84.392	0	0	3,749	0
<i>Subtotal Preschool Grant</i>		<u>20,455</u>	<u>0</u>	<u>35,507</u>	<u>0</u>
Total Special Education Cluster		<u>1,205,405</u>	<u>0</u>	<u>1,324,062</u>	<u>0</u>
Title I, Part A Cluster:					
Title I	84.010	1,493,450	0	1,895,025	0
ARRA - Title I	84.389	0	0	82,695	0
Total Title I, Part A Cluster		<u>1,493,450</u>	<u>0</u>	<u>1,977,720</u>	<u>0</u>
Educational Technology State Grants Cluster:					
Educational Technology	84.318	7,632	0	6,987	0
ARRA - Educational Technology	84.386	8,716	0	28,194	0
Total Educational Technology State Grants Cluster		<u>16,348</u>	<u>0</u>	<u>35,181</u>	<u>0</u>
Education Jobs Fund	84.410	535,977	0	741,182	0
Title III - Limited English Proficiency	84.365	2,911	0	2,911	0
ARRA - Race to the Top	84.395	164,895	0	173,999	0
Improving Teacher Quality	84.367	233,823	0	283,084	0
Total U.S. Department of Education		<u>3,652,809</u>	<u>0</u>	<u>4,538,139</u>	<u>0</u>
U.S. Department of Transportation					
<i>Passed through Ohio Department of Transportation</i>					
STW 2009 SRTS Walk to School	20.205	741	0	741	0
Total U.S. Department of Transportation		<u>741</u>	<u>0</u>	<u>741</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 5,139,899</u>	<u>\$ 201,110</u>	<u>\$ 6,025,229</u>	<u>\$ 201,110</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

EUCLID CITY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH
JUNE 30, 2012

NOTE 1: BASIS OF PRESENTATION

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

NOTE 2: NONCASH SUPPORT

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

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

2012(i)	Type of Financial Statement Opinion	Unqualified
2012(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2012(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2012(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2012(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2012(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
2012(v)	Type of Major Programs' Compliance Opinion:	Unqualified
2012(vi)	Are there any reportable findings under .510?	Yes
2012(vii)	Major Programs (list): Special Education Cluster - CFDA #84.027, #84.173, #84.391 and #84.392 Child Nutrition Cluster - CFDA #10.553, #10.555, #10,556, and #10.559 Education Jobs Fund - CFDA #84.410	
2012(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2012(ix)	Low Risk Auditee?	No

EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2012
(CONTINUED)

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

Finding No. 2012-001 - Significant Deficiency - Bank Reconciliations

Statement of Condition/Criteria

Based on our audit of the cash function for the District, we noted that the monthly bank reconciliations are not being performed timely. In addition, we noted several reconciling items which were not properly reflected on the District's books, and which were subsequently corrected by the District prior to issuing the audited financial statements.

Cause/Effect

Bank reconciliations were not performed timely and cash was not properly stated due to unrecorded reconciling items.

Recommendation

We recommend that the District reconcile its bank accounts and management subsequently review them in a timely manner. We also recommend that any reconciling items be investigated and corrected timely. This will strengthen controls over the cash function and eliminate possible errors from compounding month after month. The District should also evaluate its current bank accounts and determine if consolidation of some accounts may be more efficient for recording and reconciliation purposes. If separate accounts are utilized, all related activity should flow through each respective account to avoid excessive transfers between accounts. The District should also inquire of its financial institution if there are any services available to aid in the bank reconciliation process (i.e., Positive Pay system).

Client Response

The internal control procedures for bank reconciliations have been modified. Modifications include training of all applicable personnel, reorganizing the approval hierarchy, and designating specific dates each month, to assure the reconciliation process is complete.

**EUCLID CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2012
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 2012-002 - Noncompliance Citation/Significant Deficiency - Cash Requests

Condition/Criteria

During our testing of cash requests for grant funds, we noted the following:

- a. Child Nutrition Cluster - there was some lag time between the dates of meals served for the month of March 2012 and federal reimbursement of those meals, which were received in June 2012.
- b. Special Education Cluster - the April and May 2012 advance cash requests were not obligated within 30 days of receipt.
- c. Education Jobs Fund - final cash request for fiscal year 2012 was made in October 2012 and included pay and benefits of teaching staff who performed work during fiscal year 2012 but were not paid until July and August 2012. We also noted that the grant's cash balance at June 30, 2012, had a deficit of \$18,851. A request to cover the negative balance was not made until October 2012.

Cause/Effect

Cash requests were not made timely and advances were not expended within the period of time for which they were requested.

Recommendation

We recommend that the District establish and implement procedures to minimize the time between the transfer of Federal funds and the disbursements of funds for program purposes. This will strengthen controls over cash and allow the District to remain in compliance with specific Federal program requirements.

Client Response

Concerning the Child Nutrition Cluster, attempts have been made in 2013 to reconcile the applicable reports in a more timely fashion. For the Special Education Cluster and the Education Jobs Fund, all federal programs are now reviewed during weekly staff meetings to reduce recoding and holding cash for periods longer than federal guidelines allow.

**EUCLID CITY SCHOOL DISTRICT
 SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
 FOR THE YEAR ENDED JUNE 30, 2012**

Number	Finding Summary	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2011-1	Non-Compliance Citation/Material Weakness - Cash Requests	Partially Corrected - Repeated as Finding 2012-002
2011-2	Significant Deficiency - Review of Nutrition Program Claims for Reimbursement	Partially Corrected - Repeated as Finding 2012-002

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

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

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

Euclid City School District
Cuyahoga County
Euclid, Ohio

To the Board of Education:

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

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation, or bullying as of year June 30, 2012.

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

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



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

January 15, 2013



Dave Yost • Auditor of State

EUCLID CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2013**